Financial Sector

Daniel Jasper
Hantao Wang
Qian Zhuang
Agenda

- Overview
- Business Analysis
- Economic Analysis
- Financial Analysis
- Valuation Analysis
- Recommendation
- Q&A
Overview
Overview

S&P 500 Vs. SIM Portfolio Sector Weights

- S&P 500 Weight
- SIM Weight
Overview

SIM Portfolio Sector Breakdown

- Consumer Discretionary: 14%
- Financials: 14%
- Health Care: 12%
- Information Technology: 19%
- Industrials: 9%
- Energy: 14%
- Materials: 3%
- Telecommunication Services: 2%
- Utilities: 4%
- Cash: 1%
- Dividend Receivables: 0%
- Cash: 1%
- Dividend Receivables: 0%
- Consumer Staples: 8%
- Utilities: 4%
- Telecommunication Services: 2%
- Materials: 3%
- Information Technology: 19%
- Industrials: 9%
- Energy: 14%
- Financials: 14%
- Health Care: 12%
Overview

- **Industries in within the sector**
  - Diversified Financial Services  137,000b
  - Asset Management   10.44b
  - Consumer Finance
  - Credit Services
  - Insurance
  - Mortgage Investment
  - Property Management
  - Real Estate Development
  - Savings & Loans
  - Etc.

• Source: Yahoo Finance
Overview

• The Largest company in the sector
• By market cap:
  • 1. Berkshire Hathaway Inc. 243.6 b
  • 2. Wells Fargo & Co. 189.93b
  • 3. JPMorgan Chase & Co 186.80b
  • 4. Bank of America Corporation 131.98b
  • 5. Citigroup Inc 130.06
Overview

Sector Performance Year to Date
Overview

Sector Performance Quarter to Day
Overview

Sector Performance in 10 Years
Overview

Sector Performance year-to-date
Business Analysis
Business Analysis

- Porter’s Five Forces
  - Threat of new entrants: LOW
    - Strict regulations
    - High capital requirements
  - Threat of substitute: LOW
    - There are almost no substitutes of financial industry
  - Bargaining power of customers
    - For individual/small companies: LOW
    - For large companies: HIGH
  - Bargaining power of suppliers: HIGH
    - Federal Reserve
  - Intensity of competitive rivalry: HIGH
    - Many companies, low switching costs
Business Analysis

- Business Cycle
cyclical

- The market is highly relative to the U.S Economy and Global Economy
Business Analysis

- **External Factors**
  - Regulations
  - Highly influenced by US economy
  - Federal reserve monetary policy
  - Customers’ demand
Economic Analysis

- US GDP

REAL GROSS DOMESTIC PRODUCT and FINANCIALS

% Chg. Q/Q, SAAR

Lag: 0 Months  r = .32

Oct 18, 2013

SPFN 507

426

345

263

182

101
Economic Analysis

- Money supply

M2 MONEY SUPPLY and FINANCIALS

<table>
<thead>
<tr>
<th>% Chg, Yr Ago</th>
<th>Lag: 0 Months</th>
<th>r = -.35</th>
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</thead>
<tbody>
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<td>12%</td>
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Oct 18, 2013

SPFN

507

439

372

304

236

169

101
Economic Analysis

- Disposable income

DISPOSABLE INCOME and FINANCIALS

% Chg. Yr Ago

Lag: 0 Months $r = .63$

Oct 18, 2013

SPFN 507

281.92 2.8
Economic Analysis

- 2 year Treasury Notes

2-YEAR TREASURY NOTE RATE and FINANCIALS

Percent

Lag: 0 Months  r = .91

Oct 18, 2013

SPFN

507

449

391

333

275

217

159

101

03 04 05 06 07 08 09 10 11 12 13

-1

0

1

2

3

4

5
Economic Analysis

- Federal Funds Rate

FEDERAL FUNDS RATE and FINANCIALS

Percent

Lag: 0 Months  r = .89

Oct 18, 2013

SPFN 507

426

345

263

182

101
Economic Analysis

- 10 year Treasury Notes

10 YEAR TREASURY YIELD and FINANCIALS

Oct 18, 2013

Percent

6%

Lag: 0 Months  r = .81
Economic Analysis

- Unemployment rate

UNEMPLOYMENT RATE and FINANCIALS

Percent

12%

Lag: 0 Months  r = -0.92

Oct 18, 2013
Economic Analysis

- Consumer Confidence

CONSUMER CONFIDENCE and FINANCIALS

Index

Lag: 0 Months  r = .93

Oct 18, 2013

03 04 05 06 07 08 09 10 11 12 13

140

120

100

80

60

40

20

0

101

217

275

333

391

449

507
Economic Analysis

- Consumer Confidence: Lead 2 months
Financial Analysis
**Financial Analysis**

- Sector revenue growth rate

### Financials

**SPFN**

<table>
<thead>
<tr>
<th>Revenues - % change</th>
<th>Latest Qtr (Jun 13) ...........up 8%</th>
</tr>
</thead>
</table>

**Revenues - 4 Quarter Moving Average**

5 Year Growth Rate: -2%

### Revenues Per Share

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Mar</td>
<td>40.97</td>
<td>38.31</td>
<td>36.01</td>
<td>36.17</td>
<td>37.44</td>
<td>35.92</td>
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<td>Jun</td>
<td>40.66</td>
<td>36.80</td>
<td>35.08</td>
<td>34.70</td>
<td>37.40</td>
<td>36.20</td>
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<td>Sep</td>
<td>37.51</td>
<td>34.85</td>
<td>35.23</td>
<td>35.92</td>
<td>34.52</td>
<td>36.24</td>
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<tr>
<td>Dec</td>
<td>33.51</td>
<td>35.94</td>
<td>31.15</td>
<td>36.52</td>
<td>35.04</td>
<td>36.65</td>
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<table>
<thead>
<tr>
<th>Year to Year</th>
<th>2009-2010</th>
<th>2011-2012</th>
<th>2012-2013</th>
<th>2013-2014</th>
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<tbody>
<tr>
<td>Yr.</td>
<td>-4%</td>
<td>-6%</td>
<td>4%</td>
<td>-1%</td>
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<tr>
<td>Yr. to Yr.</td>
<td></td>
<td></td>
<td></td>
<td>3%</td>
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</table>

Mean Estimates: First Call

F (Quarterly numbers may not add to annuals)
### Financial Analysis

- Sector earnings growth rate

#### Earnings Per Share - % change

**Latest Qtr (Jun 13) ....... up 29 %**

#### Earnings - 4 Quarter Moving Average

- 5 Yr Hist Growth Rate: 48 %
- Long Term Future Growth Rate: 10 %

![Graph showing earnings per share over years]

#### Earnings Per Share

<table>
<thead>
<tr>
<th>Year</th>
<th>Earnings Per Share</th>
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<tr>
<td>2008</td>
<td>1.47</td>
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<tr>
<td>2009</td>
<td>2.06</td>
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<td>2010</td>
<td>3.84</td>
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<td>2011</td>
<td>7.31</td>
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<td>2012</td>
<td>4.88</td>
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<td>2013</td>
<td>5.35</td>
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<tr>
<td>2014</td>
<td>5.56</td>
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#### Year-over-Year (Yr. to Yr.)

- 588 %
- 48 %
- 26 %
- -4 %
- 9 %
- 11 %

#### Estimates

- Mean Estimates: First Call

(Quarterly numbers may not add to annuals)
Financial Analysis

- Return on Equity

<table>
<thead>
<tr>
<th>ROE (%)</th>
<th>17</th>
<th>15</th>
<th>16</th>
<th>15</th>
<th>4</th>
<th>NM</th>
<th>8</th>
<th>8</th>
<th>9</th>
<th>10</th>
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<td>ROIC (%)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
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**Return on Equity (Margins)** .. 9.8 %

**Key Operating Statistics**

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<tr>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>EBITDA Margin</td>
<td>13.5 %</td>
<td>21.4 %</td>
<td>30.7 %</td>
<td>29.8 %</td>
<td>28.9 %</td>
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<tr>
<td>Net Profit Margin</td>
<td>7.0 %</td>
<td>10.8 %</td>
<td>14.4 %</td>
<td>13.3 %</td>
<td>14.1 %</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>NM</td>
<td>7.5 %</td>
<td>8.3 %</td>
<td>8.9 %</td>
<td>9.8 %</td>
</tr>
</tbody>
</table>

= Preliminary
EBITDA and Net Profit Margin are as Reported
Financial Analysis

- Industry Revenue Analysis

**CONSUMER FINANCE** 10/18/13

(FINAN) 754.33

Revenues - % change
Latest Qtr (Jun 13) .......up 15 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 7 %

(Per Share Data)

**DIVERSIFIED BANKS** 10/18/13

(BANKS) 335.66

Revenues - % change
Latest Qtr (Jun 13) .......up 6 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 0 %

(Per Share Data)

**INV BANK & BROKERAGE** 10/18/13

(IBANK) 94.12

Revenues - % change
Latest Qtr (Jun 13) .......up 36 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 3 %

(Per Share Data)

**REGIONAL BANKS** 10/18/13

(RBANK) 69.72

Revenues - % change
Latest Qtr (Jun 13) .......up 6 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: -9 %

(Per Share Data)

**DIVERSE FIN'L SVC** 10/18/13

(DIVFN) 57.8

Revenues - % change
Latest Qtr (Jun 13) .......up 8 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: -11 %

(Per Share Data)

**INSURANCE-LIFE/HLTH** 10/18/13

(INSLH) 311.86

Revenues - % change
Latest Qtr (Jun 13) .......up 3 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 9 %

(Per Share Data)

**INSURANCE-MULTI-LINE** 10/18/13

(INSML) 99.23

Revenues - % change
Latest Qtr (Jun 13) .......down 34 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: -9 %

(Per Share Data)

**INSURANCE-PROP/CAS** 10/18/13

(INSPC) 325.13

Revenues - % change
Latest Qtr (Jun 13) .......up 11 %

Revenues - 4 Quarter Moving Average
5 Year Growth Rate: 0 %

(Per Share Data)
Financial Analysis

- Industry Earnings Analysis

<table>
<thead>
<tr>
<th>Industry</th>
<th>Date</th>
<th>EPS</th>
<th>5 Year Hist Growth</th>
<th>Long Term Future Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>CONSUMER FINANCE</td>
<td>10/18/13</td>
<td>754.33</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>DIVERSIFIED BANKS</td>
<td>10/18/13</td>
<td>335.66</td>
<td>34%</td>
<td>7%</td>
</tr>
<tr>
<td>INV BANK &amp; BROKERAGE</td>
<td>10/18/13</td>
<td>94.12</td>
<td>136%</td>
<td>10%</td>
</tr>
<tr>
<td>REGIONAL BANKS</td>
<td>10/18/13</td>
<td>69.72</td>
<td>76%</td>
<td>6%</td>
</tr>
<tr>
<td>DIVERSE FIN'L SVC</td>
<td>10/18/13</td>
<td>57.8</td>
<td>66%</td>
<td>12%</td>
</tr>
<tr>
<td>INSURANCE-LIFE/HLTH</td>
<td>10/18/13</td>
<td>311.86</td>
<td>10%</td>
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<tr>
<td>INSURANCE-MULTI-LINE</td>
<td>10/18/13</td>
<td>99.23</td>
<td>80%</td>
<td>11%</td>
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<tr>
<td>INSURANCE-PROP/CAS</td>
<td>10/18/13</td>
<td>325.13</td>
<td>-2%</td>
<td>9%</td>
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</table>
Valuation Analysis
# Financials Sector Valuation

<table>
<thead>
<tr>
<th>Absolute Basis</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/Trailing E</td>
<td>135.2</td>
<td>8.1</td>
<td>13.3</td>
<td>12.8</td>
</tr>
<tr>
<td>P/Forward E</td>
<td>20.1</td>
<td>8.8</td>
<td>12.3</td>
<td>12.2</td>
</tr>
<tr>
<td>P/B</td>
<td>2.3</td>
<td>0.5</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>P/S</td>
<td>2.7</td>
<td>0.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>P/CF</td>
<td>140.7</td>
<td>7.6</td>
<td>9.8</td>
<td>10.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relative to SP500</th>
<th>High</th>
<th>Low</th>
<th>Median</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/Trailing E</td>
<td>7.8</td>
<td>0.65</td>
<td>0.82</td>
<td>0.83</td>
</tr>
<tr>
<td>P/Forward E</td>
<td>1.4</td>
<td>0.68</td>
<td>0.81</td>
<td>0.85</td>
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<tr>
<td>P/B</td>
<td>0.7</td>
<td>0.3</td>
<td>0.5</td>
<td>0.5</td>
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<td>P/S</td>
<td>1.8</td>
<td>0.9</td>
<td>1.3</td>
<td>1.3</td>
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<tr>
<td>P/CF</td>
<td>13.4</td>
<td>0.7</td>
<td>1.0</td>
<td>1.0</td>
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</tbody>
</table>
Price/Book Analysis
Price/CF Analysis
Trailing P/E Analysis
Price/Sales Analysis
Industry Valuation Analysis:

### Diversified Banks

<table>
<thead>
<tr>
<th></th>
<th>Absolute</th>
<th>Relative to S&amp;P 500</th>
<th>Relative to Sector</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>P/E</td>
<td>P/B</td>
<td>P/S</td>
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<tr>
<td>High</td>
<td>54.8</td>
<td>1.8</td>
<td>2.7</td>
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<tr>
<td>Low</td>
<td>9.5</td>
<td>0.7</td>
<td>0.8</td>
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<tr>
<td>Median</td>
<td>12.4</td>
<td>1.4</td>
<td>2.0</td>
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<tr>
<td>Current</td>
<td>11.9</td>
<td>1.6</td>
<td>2.7</td>
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### Diverse Financial Services

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<thead>
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<th>Relative to Sector</th>
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<tr>
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<td>P/S</td>
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<tr>
<td>Current</td>
<td>11</td>
<td>0.8</td>
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### Asset Management

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<th>Relative to Sector</th>
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<tr>
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<td>P/E</td>
<td>P/B</td>
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<tr>
<td>Current</td>
<td>17.1</td>
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## Industry Valuation Analysis

### Diversified Real Estate

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<th>P/S</th>
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<td><strong>Absolute</strong></td>
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<td>High</td>
<td>71.0</td>
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<tr>
<td>Current</td>
<td>57.0</td>
<td>1.9</td>
<td>5.8</td>
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<table>
<thead>
<tr>
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<th>Trailing P/E</th>
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### Investment Banks and Brokerage

<table>
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<th>P/S</th>
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<tr>
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<tr>
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<tr>
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<td>8.70</td>
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<td>3.1</td>
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<tr>
<td>Low</td>
<td>0.56</td>
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<tr>
<td>Median</td>
<td>0.85</td>
<td>0.5</td>
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### Consumer Finance

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Technical Analysis

Resistance Line

Support Line
**Recommendation**

**Pros:**

- Currently low interest rates
- Improving housing market
- Decreasing unemployment rate
- Consumer confidence is increasing

**Cons:**

- Interest rates may rise with Feds cutting the bond buyback program
- Stricter regulations on financial institutions
- Uncertain global economy

**Conclusion**

- Diversify more among financial sectors
- Increase weight to match S&P 500
Thank You!