Financial Sector

Nathan Tepley, Brandon Sauter, Yuwei Tang, Danielle Seamon
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S&P 500 Sector Weights

- Consumer Discretionary: 13.16%
- Consumer Staples: 9.90%
- Energy: 7.09%
- Financials: 16.28%
- Health Care: 14.87%
- Industrials: 9.99%
- Information Technology: 20.37%
- Materials: 2.87%
- Telecom: 2.37%
- Utilities: 3.10%
SIM Sector Weights

- Consumer Discretionary, 12.88%
- Consumer Staples, 10.01%
- Energy, 6.51%
- Financials, 15.99%
- Health Care, 13.28%
- Industrials, 9.83%
- Information Technology, 20.61%
- Materials, 2.77%
- Telecom, 2.33%
- Utilities, 2.30%
- Cash, 3.42%
Market Cap 7.01 Trillion

Industries
- Banks 3.16T
- Insurance 1.22T
- Real Estate and Investment Trusts (REITS) 994B
- Capital Markets 877B
- Financial Services 361B
- Consumer Finance 222B
- Real Estate Mgmt. and Development 105B
- Thrifts and Mortgage 80.18B
Largest Firms By Market Cap

- Wells Fargo 277.5B
- JPMorgan Chase 233.7B
- Berkshire Hathaway 171.3B
- Bank of America 168.7B
- Citi Group 158B
- HSBC 153.3B
- Visa 149.1B
- MasterCard 108.7B
Sector Overview

10-23-2015  S&P 500 INDEX 0.79%  Financials -2.51%


TODAY  5D  1M  3M  YTD  1Y  3Y  5Y  10Y  Frequency: DAILY
Sector Overview

1 MONTH PERFORMANCE %

- Basic Materials: 11.3%
- Technology: 8.8%
- Industrial Goods: 7.3%
- Consumer Goods: 7.2%
- Financial: 6.2%
- Conglomerates: 5.9%
- Utilities: 5.9%
- Services: 5.9%
- Healthcare: -1.3%

3 MONTHS PERFORMANCE %

- Utilities: 3.5%
- Technology: 3.2%
- Industrial Goods: 1.9%
- Consumer Goods: 1.9%
- Conglomerates: -0.7%
- Services: -0.9%
- Basic Materials: -1.6%
- Financial: -2.6%
- Healthcare: -9.5%
Business analysis & Economy analysis
Mid Cycle Phase Features

- profit growth peaks
- credit growth strong
- policy neutral
- inventories, sales grow
- equilibrium reached
- Cyclical, beta >1
- In a late growth stage
- Highly interest rate sensitive
### Banking Industry Analysis

5 forces indicate unattractive industry

<table>
<thead>
<tr>
<th>Factor</th>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power of suppliers</td>
<td>High</td>
<td>Federal reserve regulates the monetary policy</td>
</tr>
<tr>
<td>Rivalry</td>
<td>High</td>
<td>Must have sustainable competitive advantages</td>
</tr>
<tr>
<td>Threat of substitutes</td>
<td>High</td>
<td>Undifferentiating products; Low switching cost</td>
</tr>
<tr>
<td>Power of buyers</td>
<td>Medium</td>
<td>Ease of substitution; Low brand loyalty</td>
</tr>
<tr>
<td>Threat of new entry</td>
<td>Low</td>
<td>Hard to get new banking charter</td>
</tr>
</tbody>
</table>
Financial Regulations

-Basel III
- Liquidity coverage ratio
- Net stable funding ratio
- Liquidity risk management supervision principles
- Monitoring metrics

-Dodd-Frank
- To make the financial system more transparent and accountable
- To prevent institutions from becoming too big to fail
- To end government bailouts funded by taxpayers, and
- To end risky and abusive financial services practices
Interest Rates
1. Federal reserve delay lifting interest rates
2. ECB left interest rates unchanged and may extend QE beyond September 2016

GDP
1. Chinese slowdown, grew 6.9% in the third quarter
2. U.S. GDP grew 3.9% in the second quarter
Going Strong: Annualized Quarterly Change in U.S. GDP

Most recent revision: +3.9%

Previously reported: 3.7%
Unemployment Rate

Financial Analysis
Financial Sector Index Vs S&P 500

Key:

S&P 500 Index
S5FINL Index
Financial Sector Index Vs S&P 500

Key:

S&P 500 Index
S5FINL Index
Financial Sector Index Vs S&P 500

Key:

S&P 500 Operating
S&P 500 Profit Mar
S5FINL Operating
S5FINL Profit Mar
Financial Industries – ROE & Profit Margins

ROE

Profit Margins
Valuation Analysis
# Financial Sector v. S&P 500 — Absolute

<table>
<thead>
<tr>
<th></th>
<th>P/E</th>
<th>P/S</th>
<th>P/Bk</th>
<th>P/CF</th>
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<tbody>
<tr>
<td></td>
<td>FINL</td>
<td>SPX</td>
<td>FINL</td>
<td>SPX</td>
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<tr>
<td>5-yr High</td>
<td>15.31</td>
<td>17.2</td>
<td>2.37</td>
<td>1.76</td>
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<tr>
<td>5-yr Low</td>
<td>11.53</td>
<td>12.7</td>
<td>1.36</td>
<td>1.19</td>
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<tr>
<td>5-yr Median</td>
<td>14.37</td>
<td>14.72</td>
<td>1.66</td>
<td>1.31</td>
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<tr>
<td>Current</td>
<td>14.41</td>
<td>17.53</td>
<td>2.26</td>
<td>1.83</td>
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## Financial Sector v. S&P 500 — Relative

<table>
<thead>
<tr>
<th></th>
<th>P/E</th>
<th>P/S</th>
<th>P/Bk</th>
<th>P/CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-yr High</td>
<td>0.89</td>
<td>1.35</td>
<td>0.51</td>
<td>1.33</td>
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<tr>
<td>5-yr Low</td>
<td>0.91</td>
<td>1.14</td>
<td>0.44</td>
<td>0.89</td>
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<tr>
<td>5-yr Median</td>
<td>0.98</td>
<td>1.27</td>
<td>0.51</td>
<td>1.27</td>
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<tr>
<td>Current</td>
<td>0.82</td>
<td>1.23</td>
<td>0.49</td>
<td>1.11</td>
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<td></td>
<td>Beta</td>
<td>Trailing P/E</td>
<td>Forward P/E</td>
<td>P/S</td>
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<tr>
<td>American Express</td>
<td>1.08</td>
<td>13.37</td>
<td>13.53</td>
<td>2.32</td>
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<td>Citigroup</td>
<td>1.38</td>
<td>11.96</td>
<td>9.19</td>
<td>2.33</td>
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<td>KeyCorp</td>
<td>1.33</td>
<td>12.54</td>
<td>11.16</td>
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<td>Wells Fargo</td>
<td>0.95</td>
<td>13.1</td>
<td>12.24</td>
<td>3.34</td>
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<tr>
<td>SPX</td>
<td></td>
<td>21.77</td>
<td>1.81</td>
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<td>FINL</td>
<td></td>
<td>16.17</td>
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Recommendation
• Keep SIM FINL slightly underweight, compared to SPX
• Decrease amount of holding in insurance companies
• Industry as whole has barely kept up with SPX
  • Very volatile
• Chance for a bounce-back once the economy stabilizes