

# Strategy Flashcard

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S&P 500 to reach 2150 by 2015 end on a long expansionary cycle of moderate growth

2015 end target: 2150

2016 end target: 2300

Div Yld: 2%

	2014A	2015E	2016E
EPS	\$118.0	\$118	\$128
PE on yearend S&P targets	17.4	18.2	18.0
DPS	\$39	\$42	\$46
EPS/DPS growth	6%/8%	0%/8%	8%/10%

Quarterly EPS			
1Q14A	\$28.00	1Q15E	\$28.00
2Q14A	\$29.75	2Q15E	\$29.00
3Q14A	\$30.00	3Q15E	\$30.00
4Q14A	\$30.25	4Q15E	\$31.00

Reasons to still buy stocks:

- 1) ~3% US GDP likely in 2015
- 2) S&P EPS will rise despite \$/oil
- 3) PEs justifiable and been higher
- 4) Bond yields are nil after inflation

Dare to ask:

Why not 2500+ S&P cycle-high?  
2500+ = 17x 2018E EPS of \$150

S&P 500 avg. trailing 4qtr PE:

1960-2014	16.0
1985-2014	17.6
1995-2014	18.6
2005-2014	15.9

Sectors/Industries:

Health Care, Tech  
Health Care, Tech, Consumer Disc.  
Tech, Health Care, some Consumer  
Big Banks, Mega-cap Tech  
Tech, Health Care, some Consumer

Staples

Be selective and valuation mindful  
Energy, Industrial Capital Goods

### Market strategy and tactics:

Lower S&P returns than history likely, but still decent and few alternatives - stay involved, buy on dips  
Consider lesson of 2014: Interest rates stayed very low despite better growth and tighter labor market

Next 5%+ move is likely: **Down**

Risk of near-term correction: **Elevated**

"S&P PE stands on the shoulders of bonds."

### Thematic and sector strategy:

Tilt toward:

- 1) Secular Growth Sectors - industries with strong sales growth in the middle of economic cycles
- 2) Sales Growth near 5% - industries not dependent on margin expansion to drive 5%+ EPS growth
- 3) High ROE or long competitive advantage - ability to defend ROE/margins amidst low interest rates
- 4) Dividend Growth - stocks with ability to significantly raise dividend payout ratios
- 5) Debt Capacity - companies that can issue cheap debt for acquisitions and share buybacks

Tilt away from:

- 1) Consumer companies w/tired brands or facing tough competition (seek unique products/experiences)
- 2) Smaller cap cyclical plays which are still expensive, prefer big-cap banks and select retailers
- 3) Commodity and industrial capital goods producers, prefer Transports

### Risks

- US tax on foreign profits, whether repatriated or not, threatens large multinationals and would cause margin contraction
- EM economy weakness that causes a steep decline in commodity prices, especially oil, and threatens US exports and investment spending
- A surge in long-term interest rates or any global economic shock would threaten our constructive view on the S&P for 2015

