Strategy Flashcard

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S&P 500 to reach 2300 by 2016 end on a long expansionary cycle of moderate growth

2015 end target: 2050 **2016 end target: 2300** Div Yld: 2%

	2014A	2015E	2016E
EPS	$118	$119.50	$128
PE on yearend S&P targets	17.4	17.2	18.0
DPS	$39	$42	$45
EPS/DPS growth	6%/8%	1%/8%	7%/7%

Quarterly EPS			
1Q14A	$28.00	1Q15A	$28.65
2Q14A	$29.75	2Q15E	$30.20
3Q14A	$30.00	3Q15E	~ $29.75
4Q14A	$30.25	4Q15E	$31.00

Reasons to still buy stocks:
1) ~2.5% 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+ = ~18x 2018E EPS of ~$145

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: **Up** Risk of near-term correction: **Moderate**
"S&P PE stands on the shoulders of bonds."

S&P 500 avg. trailing 4qtr PE:

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

Thematic and sector strategy:

Tilt toward:	**Sectors/Industries:**
1) Secular Growth Sectors - industries with strong sales growth in the middle of economic cycles	Health Care, Tech
2) Sales Growth near 5% - industries not dependent on margin expansion to drive 5%+ EPS growth	Health Care, Tech, Consumer Disc.
3) High ROE or long competitive advantage - ability to defend ROE/margins amidst low interest rates	Tech, Health Care, some Consumer
4) Dividend Growth - stocks with ability to significantly raise dividend payout ratios	Big Banks, Mega-cap Tech
5) Debt Capacity - companies that can issue cheap debt for acquisitions and share buybacks	Tech, Health Care, some Consumer
Tilt away from:	
1) Consumer companies w/tired brands or facing tough competition (seek unique products/experiences)	Staples
2) Smaller cap cyclical plays which are still expensive, prefer big-cap banks and select retailers	Be selective and valuation mindful
3) Commodity and industrial capital goods producers, prefer Transports	Energy, Industrial Capital Goods

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