



S&P
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Balancing Fear and Greed

Sam Stovall
Chief Equity Strategist
S&P Capital IQ

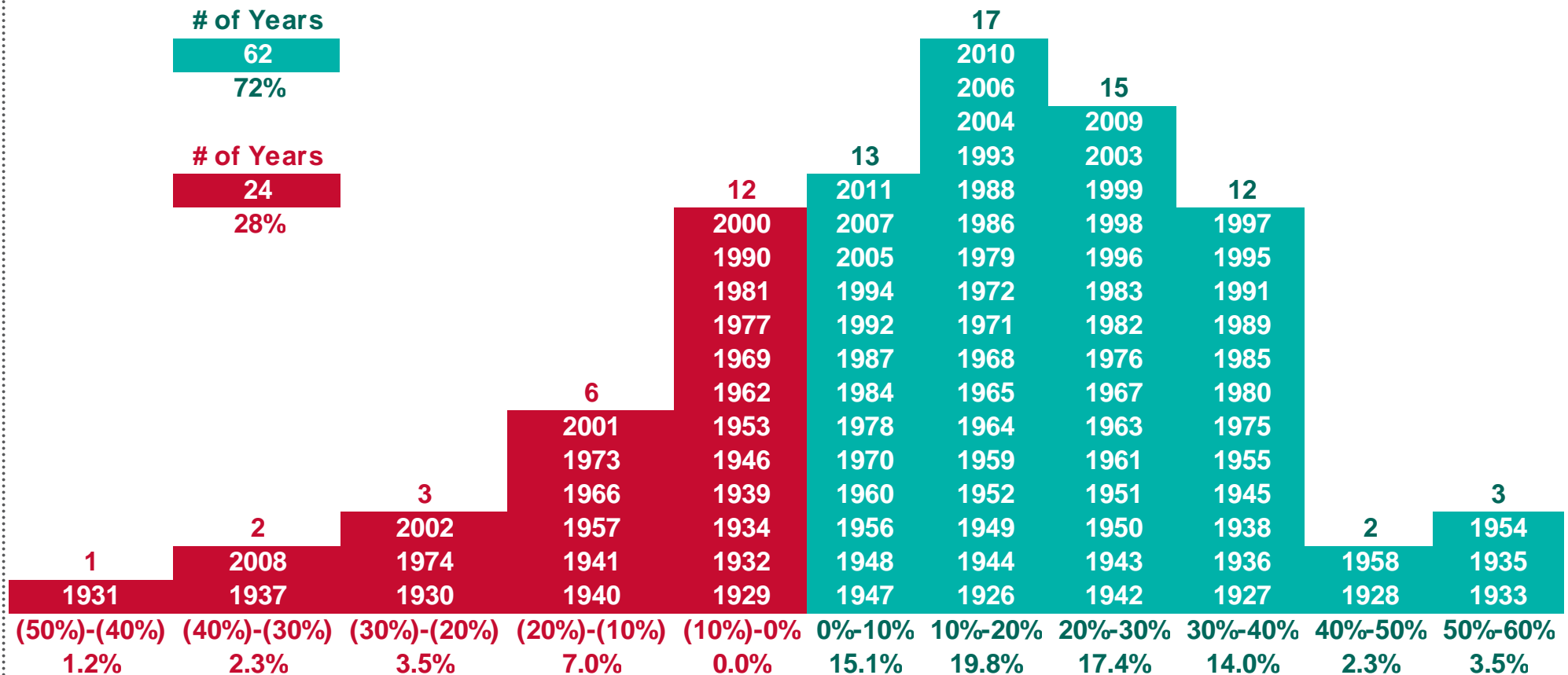
May 14, 2012

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McGRAW-HILL FINANCIAL

Annual Returns: More Up Than Down Years

S&P 500 Total Returns 1929-2011



Source: S&P Capital IQ. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns include dividends. Past performance is no indication of future results.

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Volatility: An Investor's EKG Diagram?

S&P 500 Annual Price Performance: 1945-2011



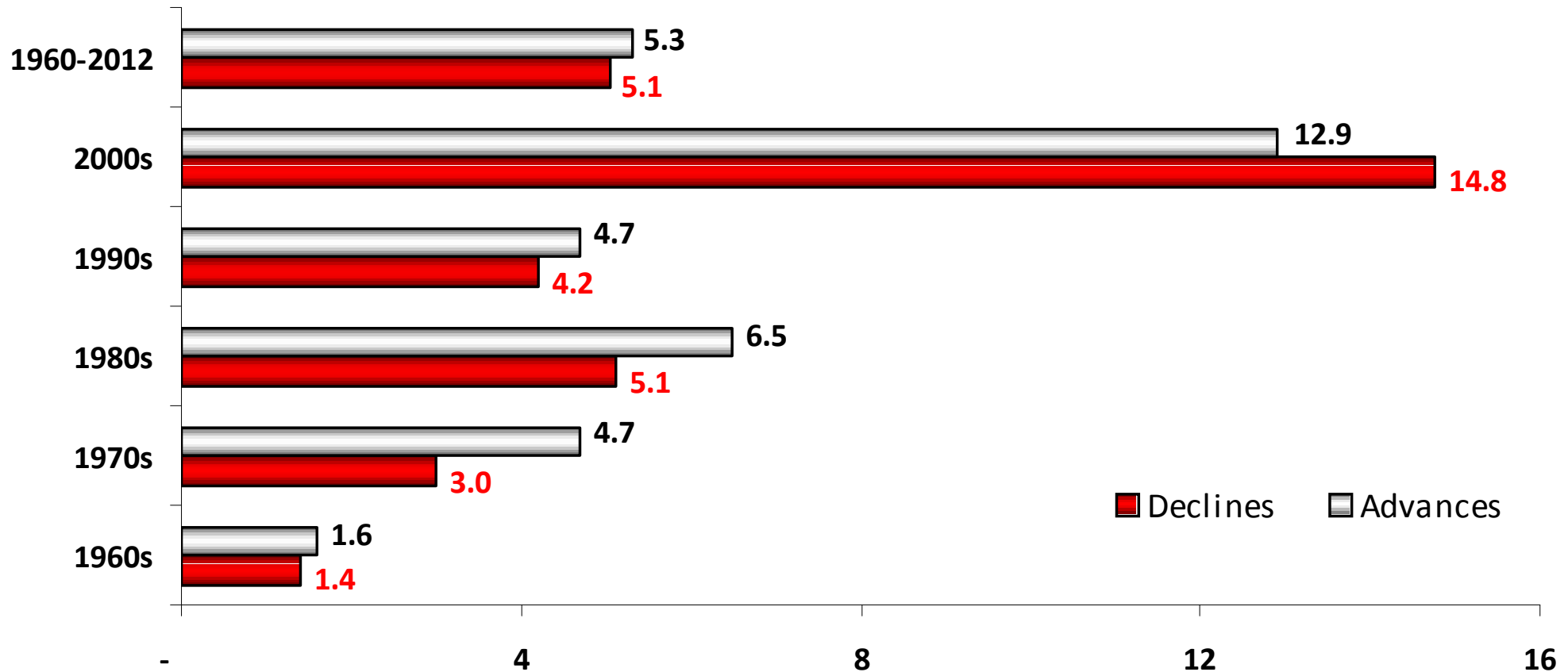
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Volatility: Not Just an Annual Phenomenon

Number of One-Day Advances and Declines of 2% or More: 1/3/60-4/30/12



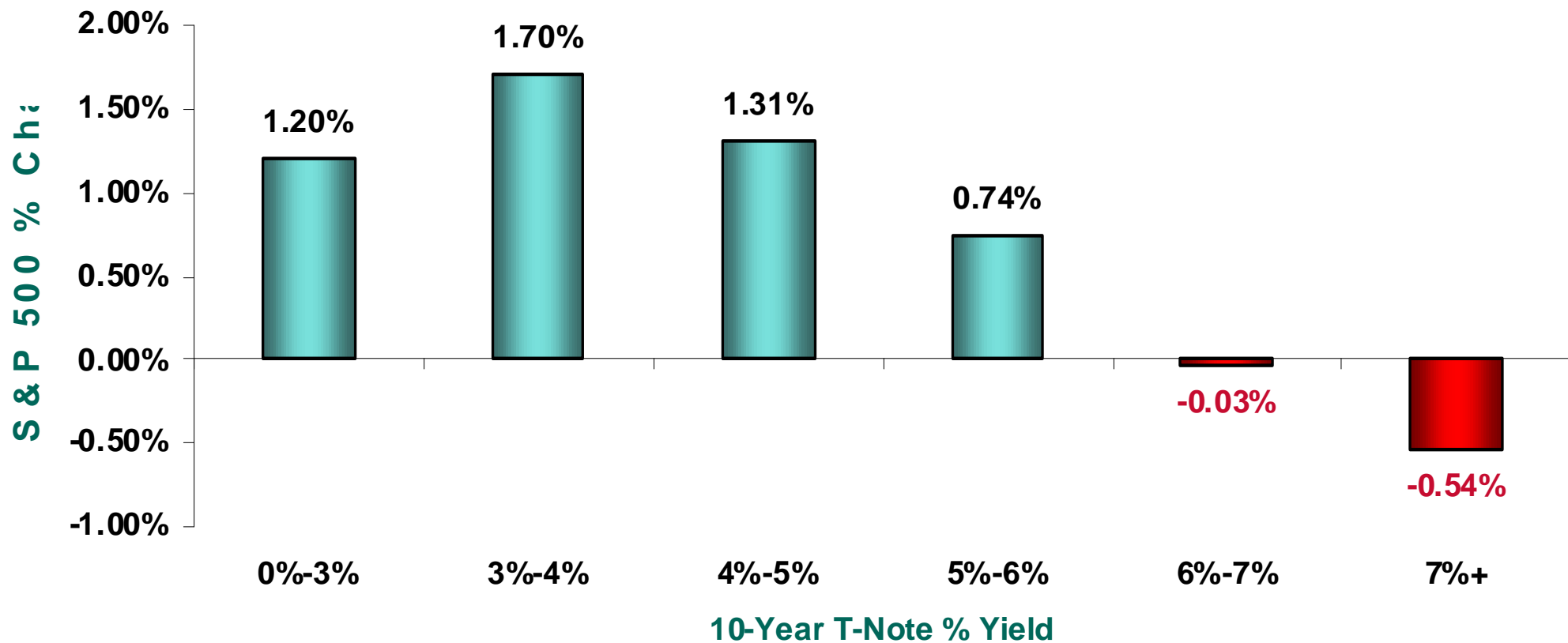
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Worry: The Threat of Higher Interest Rates

Median Monthly % Change in S&P 500 During Periods of Rising 10-Year T-Note Yields April 1953-April 2012



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Risk-On/Risk-Off: We Try to Anticipate It

Old Way

- **S&P Consumer Discretionary vs. Staples Indices**

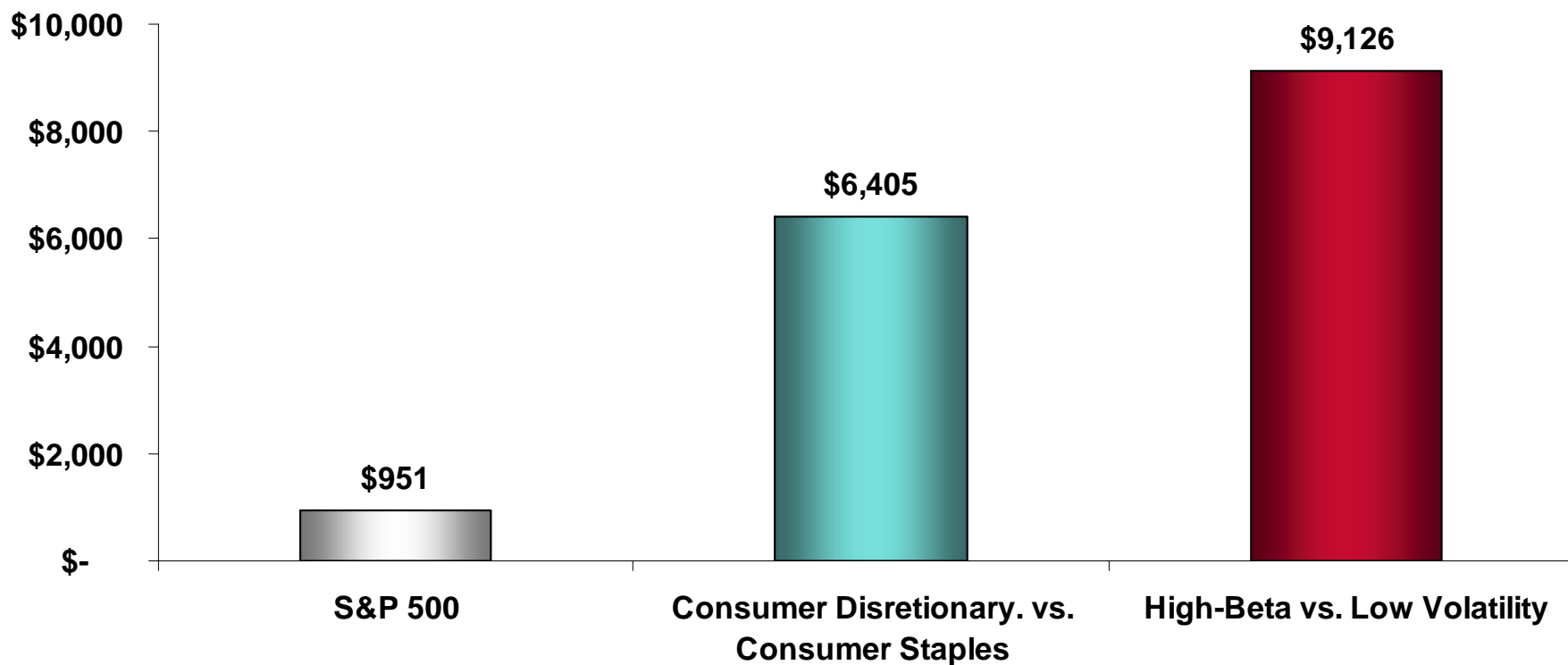
New Way

- **S&P 500 High Beta vs. Low Volatility Indices**

Risk-On/Risk-Off: S&P High Beta and Low Volatility Indices

Growth of \$1000 Based on Hypothetical Monthly "Risk On"/"Risk Off" Signals

(Long the S&P 500 in the months that the S&P 500 Cons. Disc. Sector outperformed the Cons. Staples Sector or the S&P 500 High Beta Index beat the Low Volatility Index, otherwise in cash: 12/31/99-4/30/12)



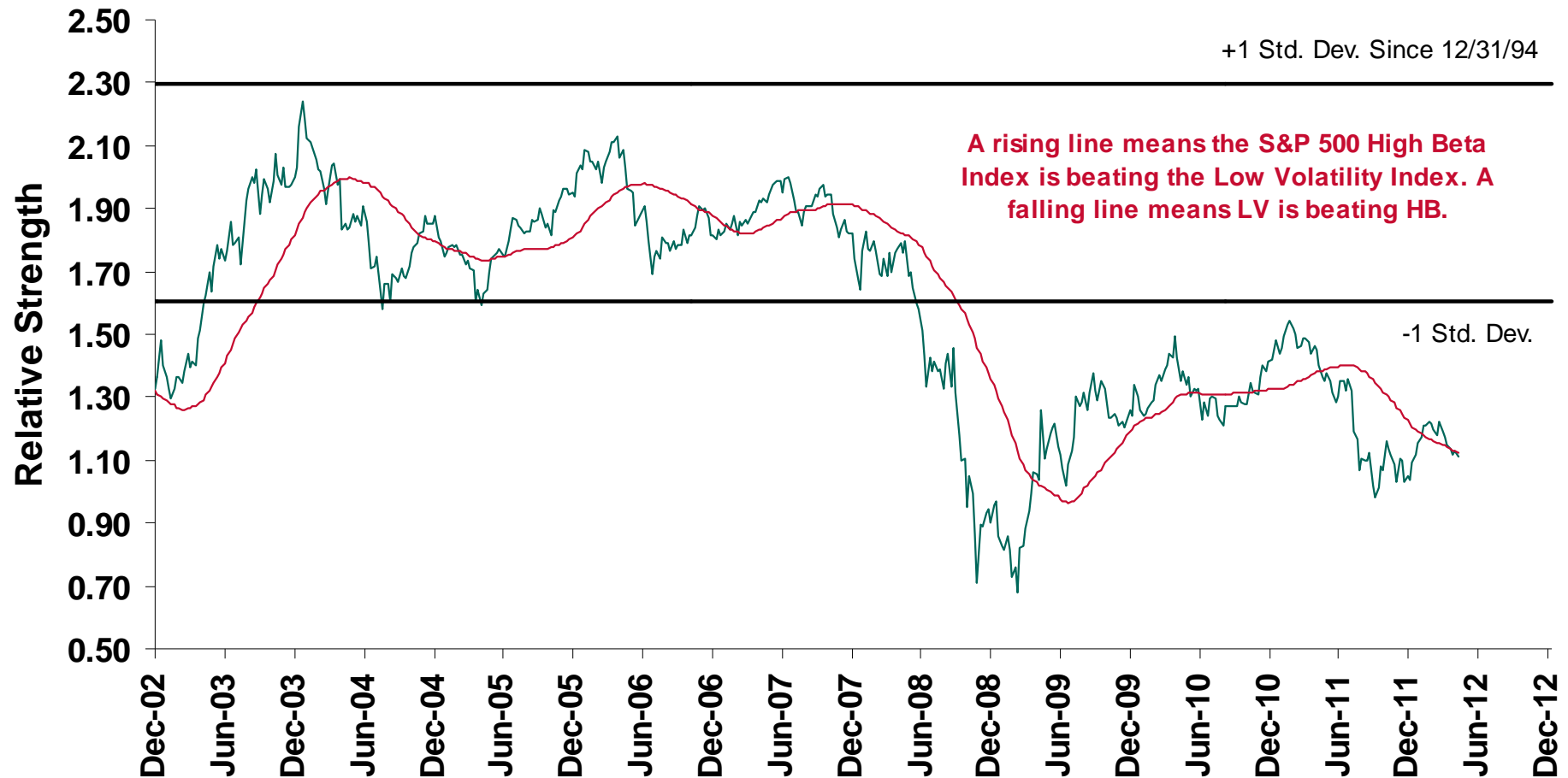
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Risk-On/Risk-Off: S&P High Beta and Low Volatility Indices

Week-Ending S&P 500 High Beta vs. Low Volatility Relative Strength (and a 40-week moving average)



Source: S&P Capital IQ.

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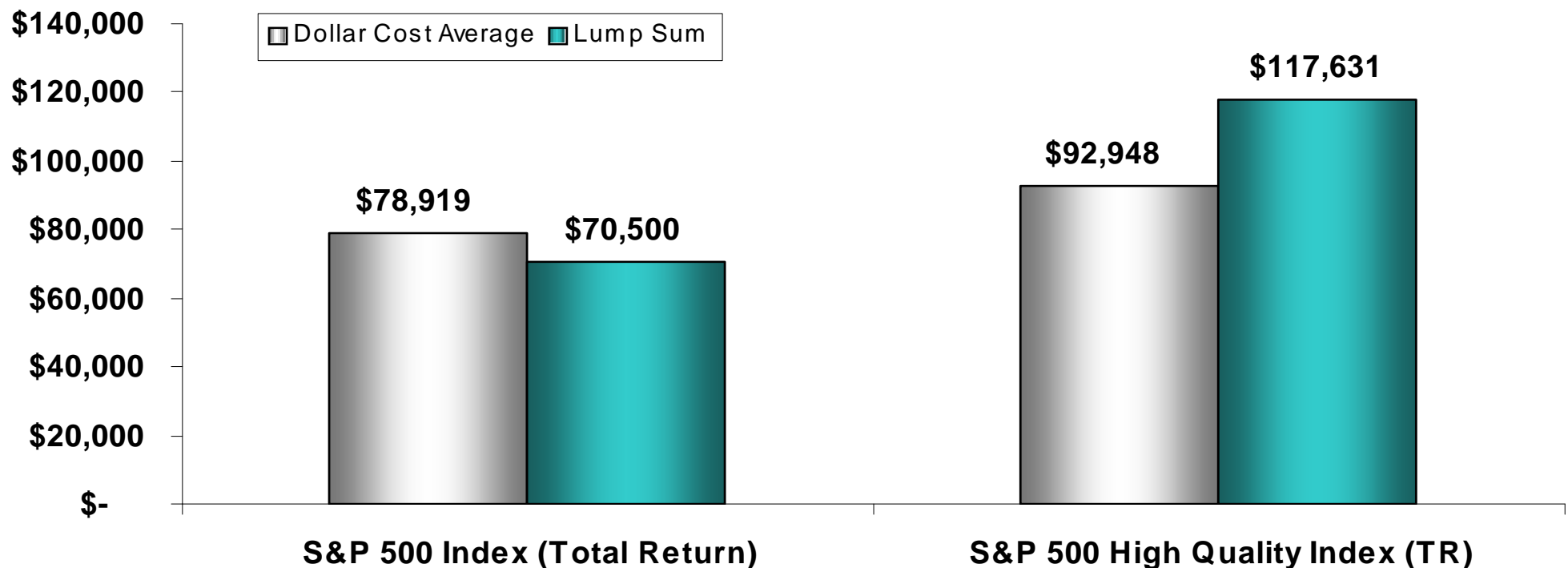
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Risk-On/Risk-Off: We Try to Neutralize It

- **Dollar-Cost Averaging**
- **Seasonality**
- **Correlation**
- **Equal Weighting**

Neutralize: Dollar Cost Averaging vs. Lump Sum

TWO HYPOTHETICAL INVESTMENT SCENARIOS: 1) \$10,000 Initial Investment on 12/31/99 with \$1,000 Added at the Start of Each Quarter, 2) \$59,000 Lump Sum on 12/31/99. Results Through 4/30/12 (dividends included).



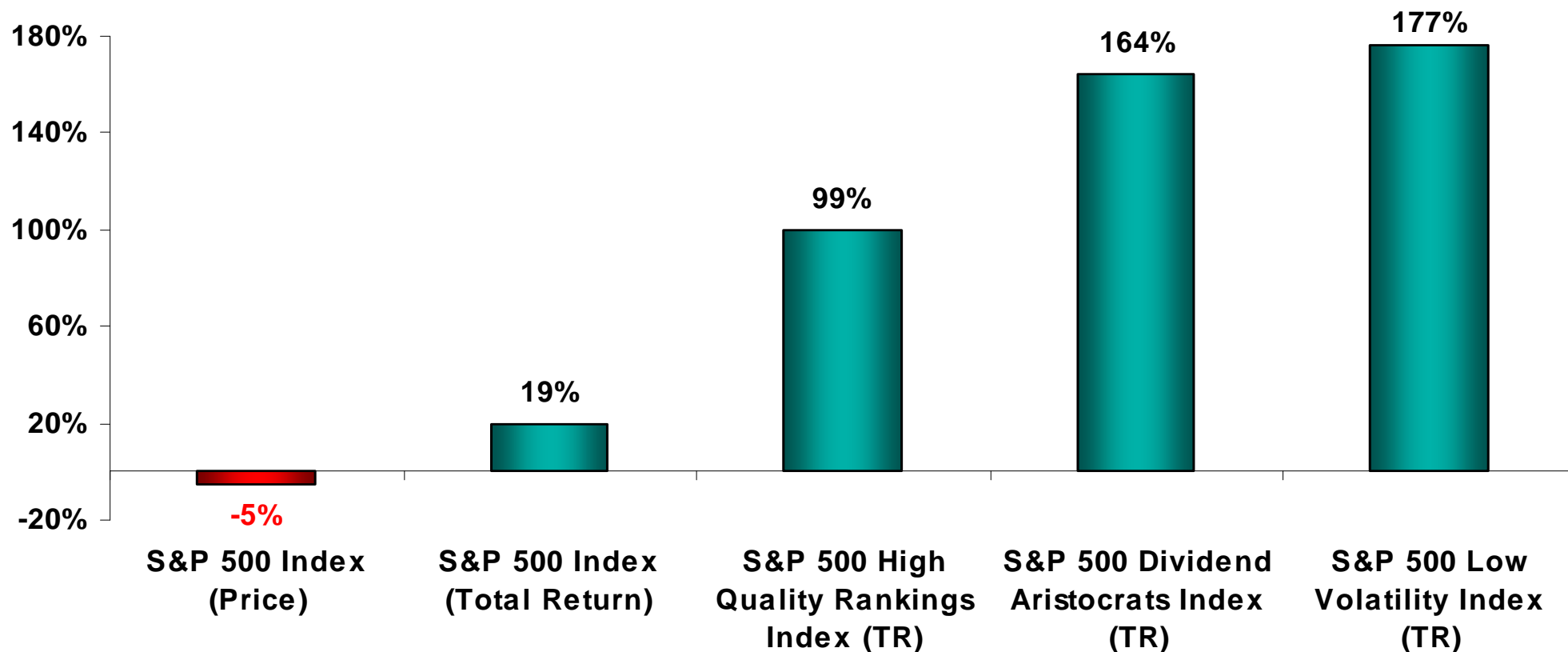
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Neutralize: S&P 500 Returns During the “Lost Decade”

S&P 500 Cumulative Performances: 12/31/99-4/30/12



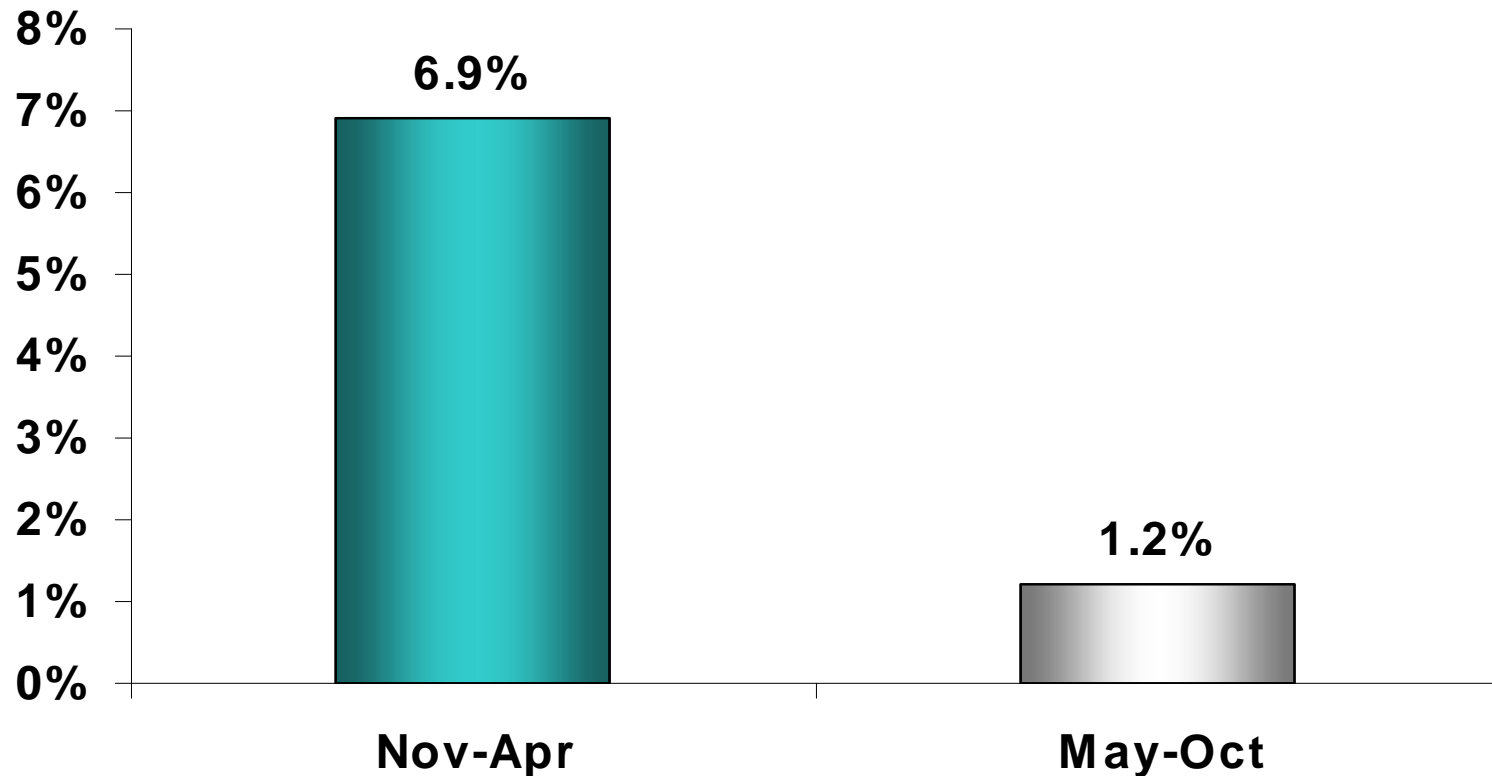
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Seasonality: “Sell in May, Then Go Away”

Average Semi-Annual S&P 500 Price Changes: 04/30/45-4/30/12



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Seasonality: Six-Month Results by Sector

Average Semi-Annual S&P 500 Sector Price Changes: 4/30/90-4/30/12

Sector	May-Oct.	
	% Chg.	F.O.
Cons. Discretionary	(1.1)	45%
Consumer Staples	4.7	68%
Energy	1.4	41%
Financials	0.6	50%
Health Care	4.3	64%
Industrials	(1.1)	18%
Info Tech	3.1	64%
Materials	(2.8)	32%
Telecom Services	0.9	59%
Utilities	1.8	50%
S&P 500	0.9	NA

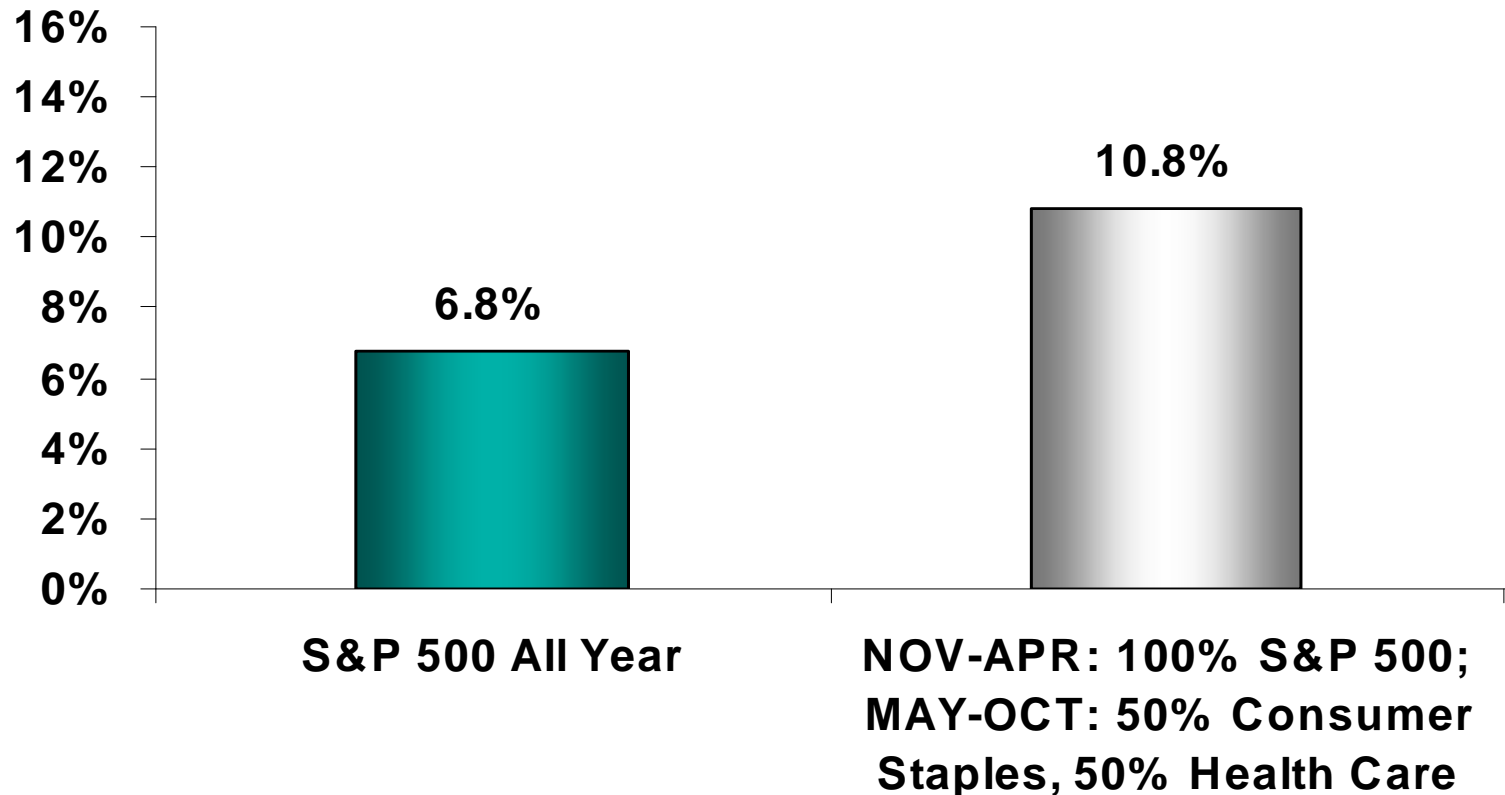
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Seasonality: Semi-Annual Rotation Strategy

Hypothetical Compound Annual Growth Rates (Price Only): 4/30/90-4/30/12



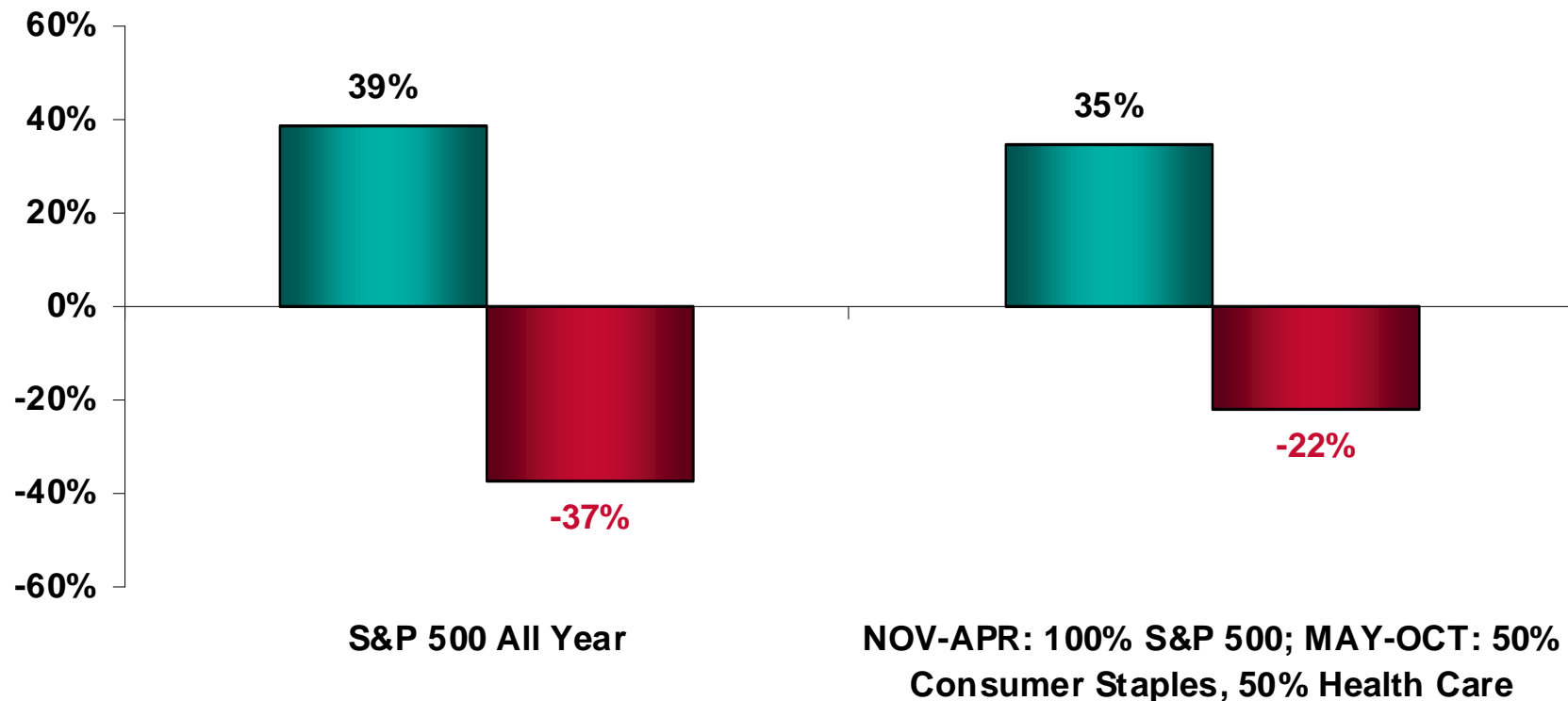
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Seasonality: 12-Month Drawdowns

Hypothetical Compound Annual Growth Rates (Price Only): 4/30/90-4/24/12



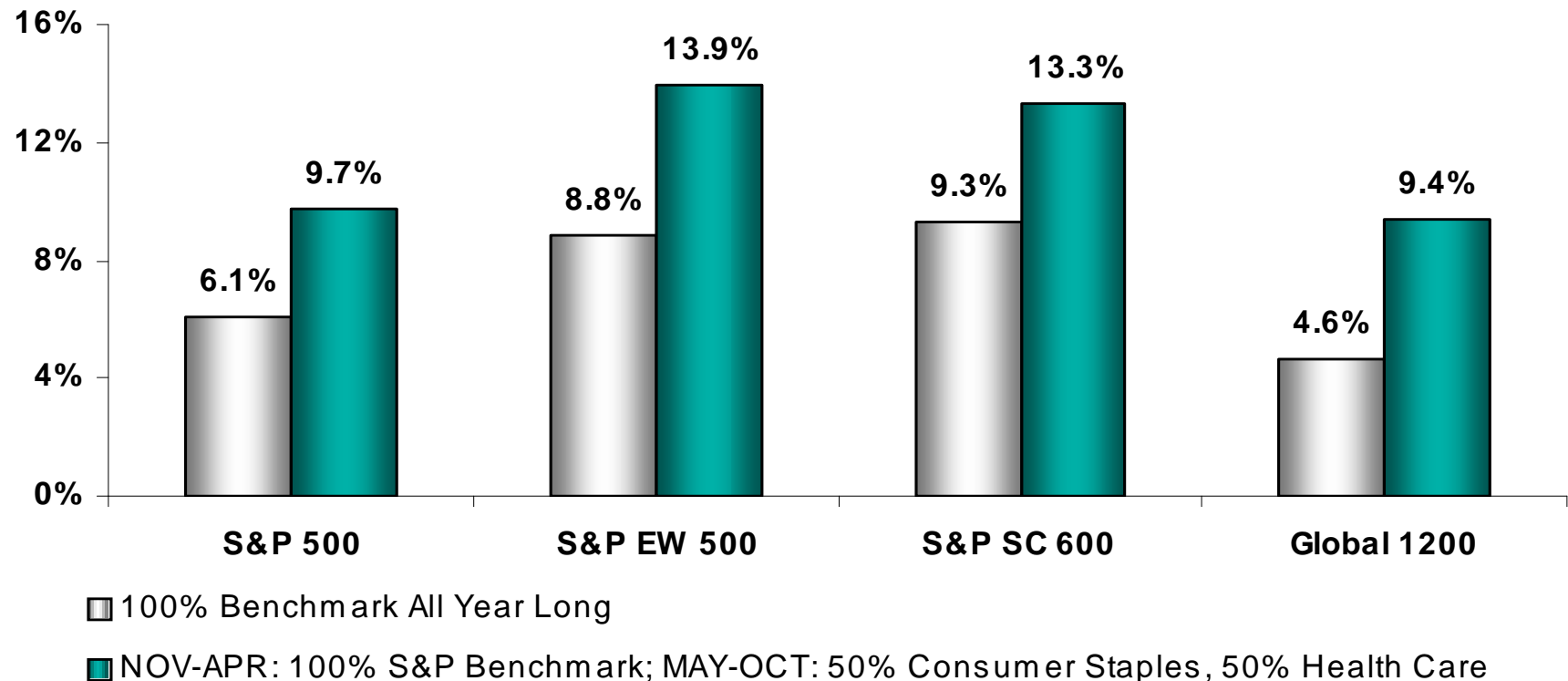
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Seasonality: “Sell in May” by Region and Cap Size

**“Buy and Hold” Versus the “Sell In May” Semi-Annual Market/Sector Rotation Strategy.
Hypothetical Compound Annual Growth Rates (Price Only): 4/30/95-4/30/12**



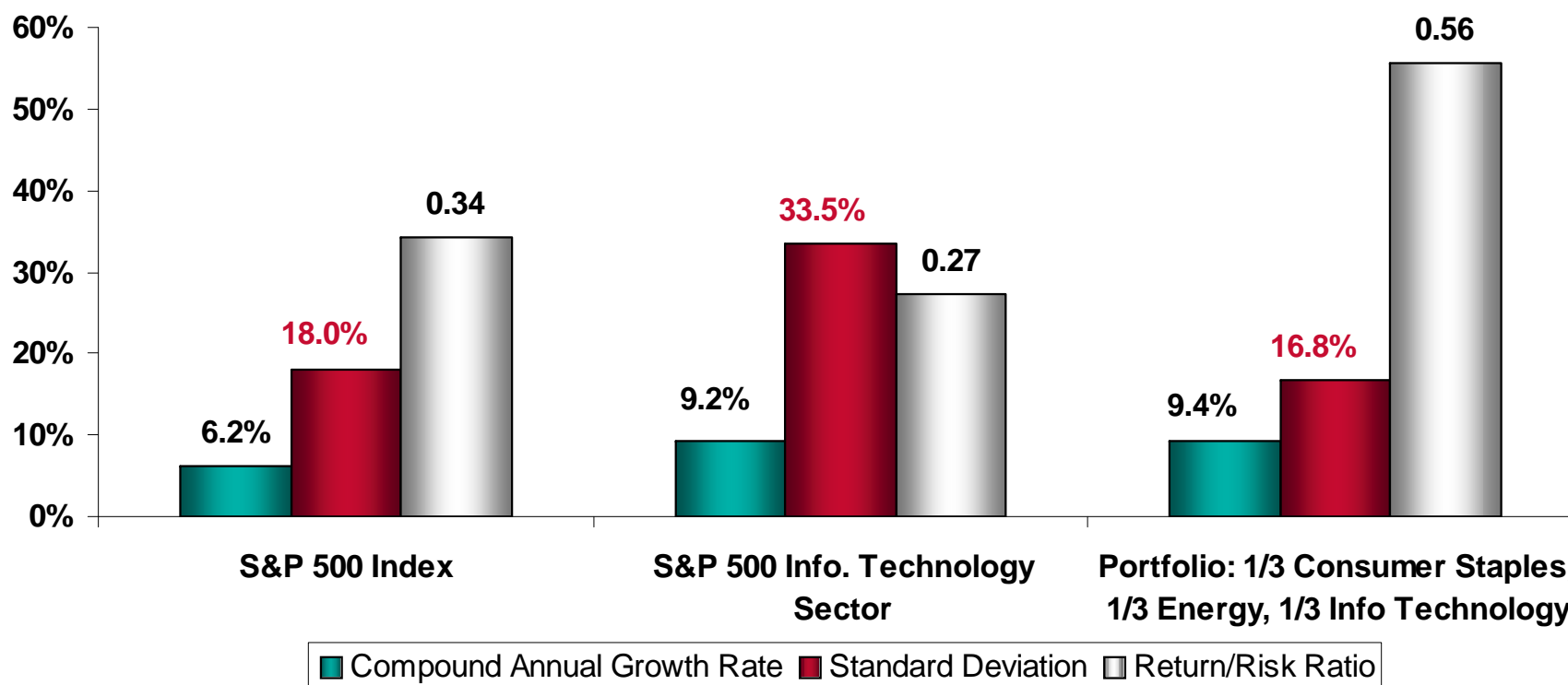
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Correlation: “Free Lunch” Strategy

Hypothetical Compound Annual Growth Rates, Standard Deviations and Return-for-Risk Ratios for the S&P 500, the Info. Tech. Sector and the “Free Lunch” Strategy: 12/31/89-4/30/12



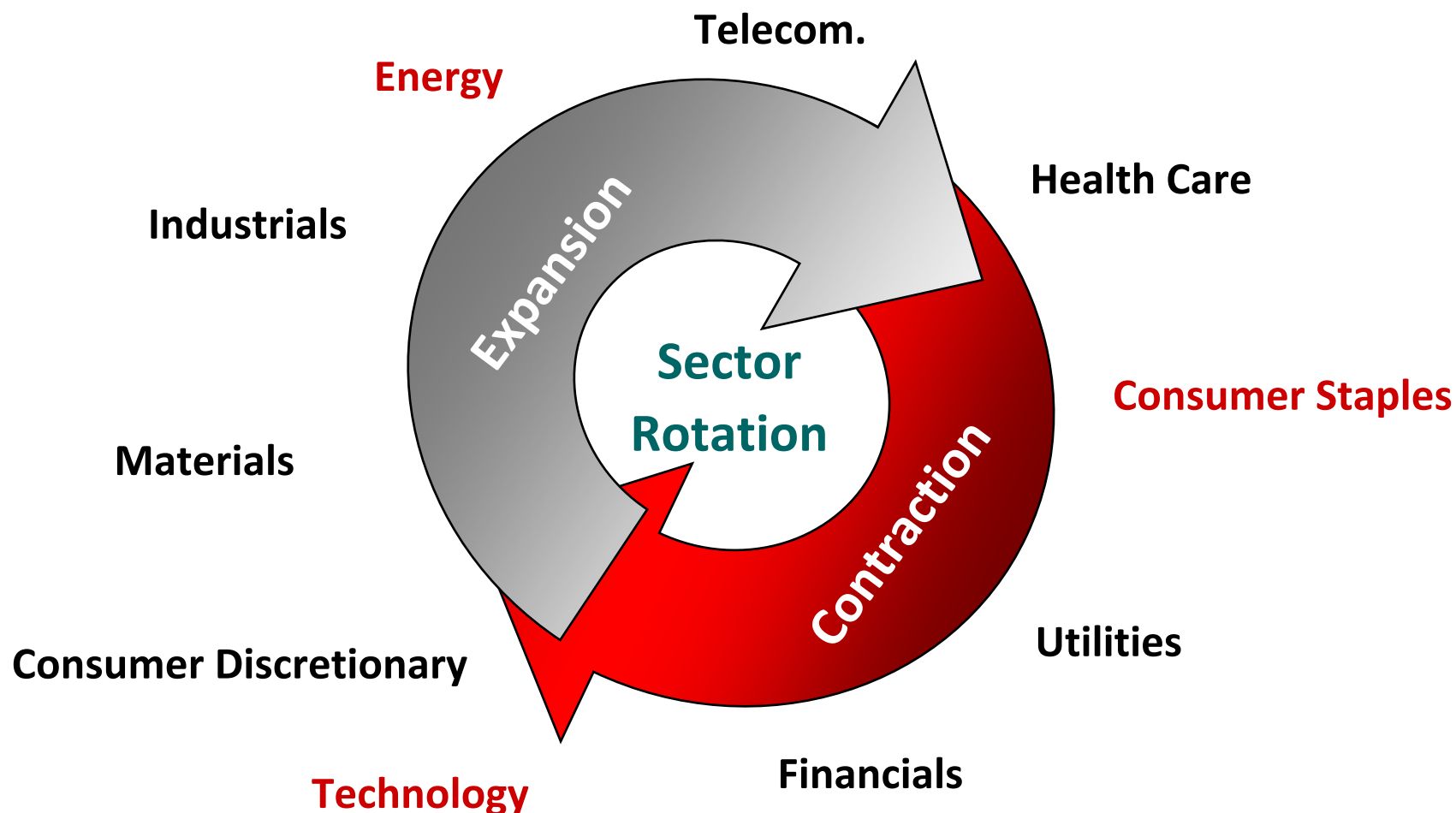
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Why Does it Work?: Positioning Within the Economic Cycle

Typical Sector Leadership Through An Economic Cycle: 1945-2012



Source: S&P Capital IQ. Past performance is no indication of future results.

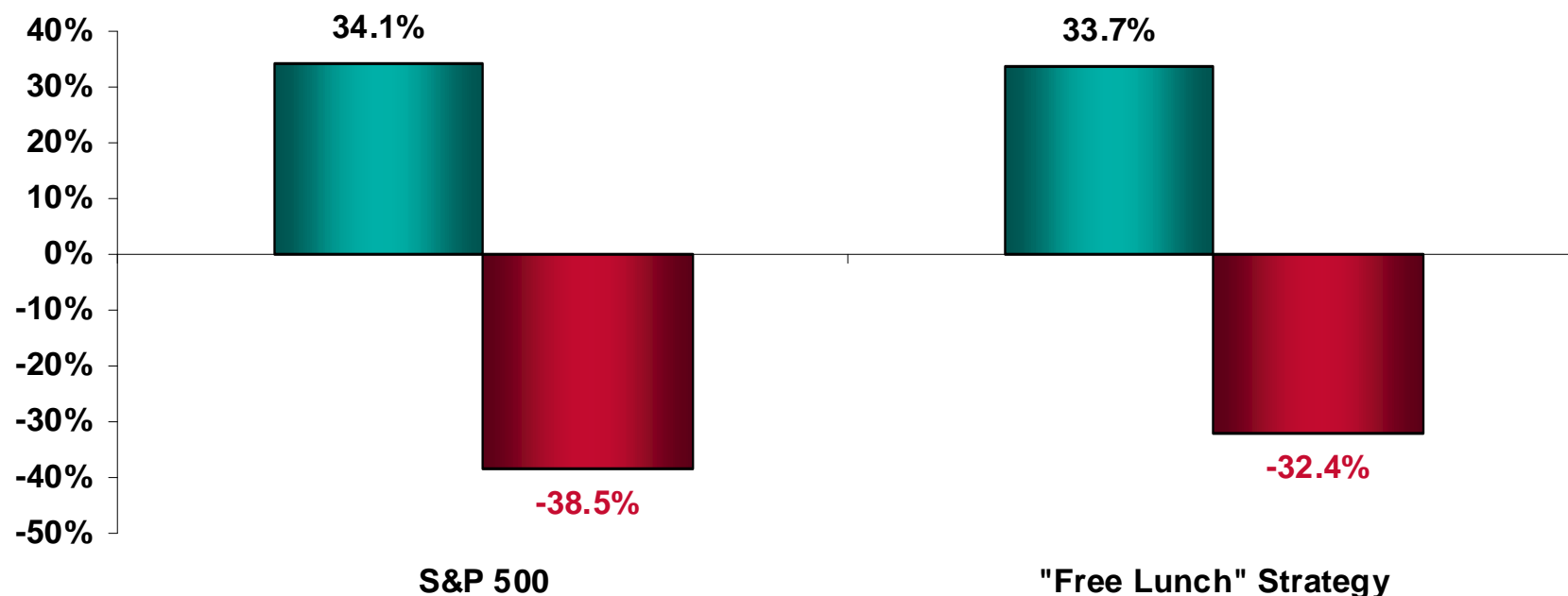
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Correlation: 12-Month Drawdowns

Hypothetical Compound Annual Growth Rates (Price Only): 4/30/90-4/30/12



Source: S&P Capital IQ. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. These results are inherently limited because they do not represent the results of actual trading and were constructed with the benefit of hindsight. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. S&P Indices and its affiliates do not sponsor, endorse, sell, promote or manage any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of any S&P Indices index. Past performance is no indication of future results.

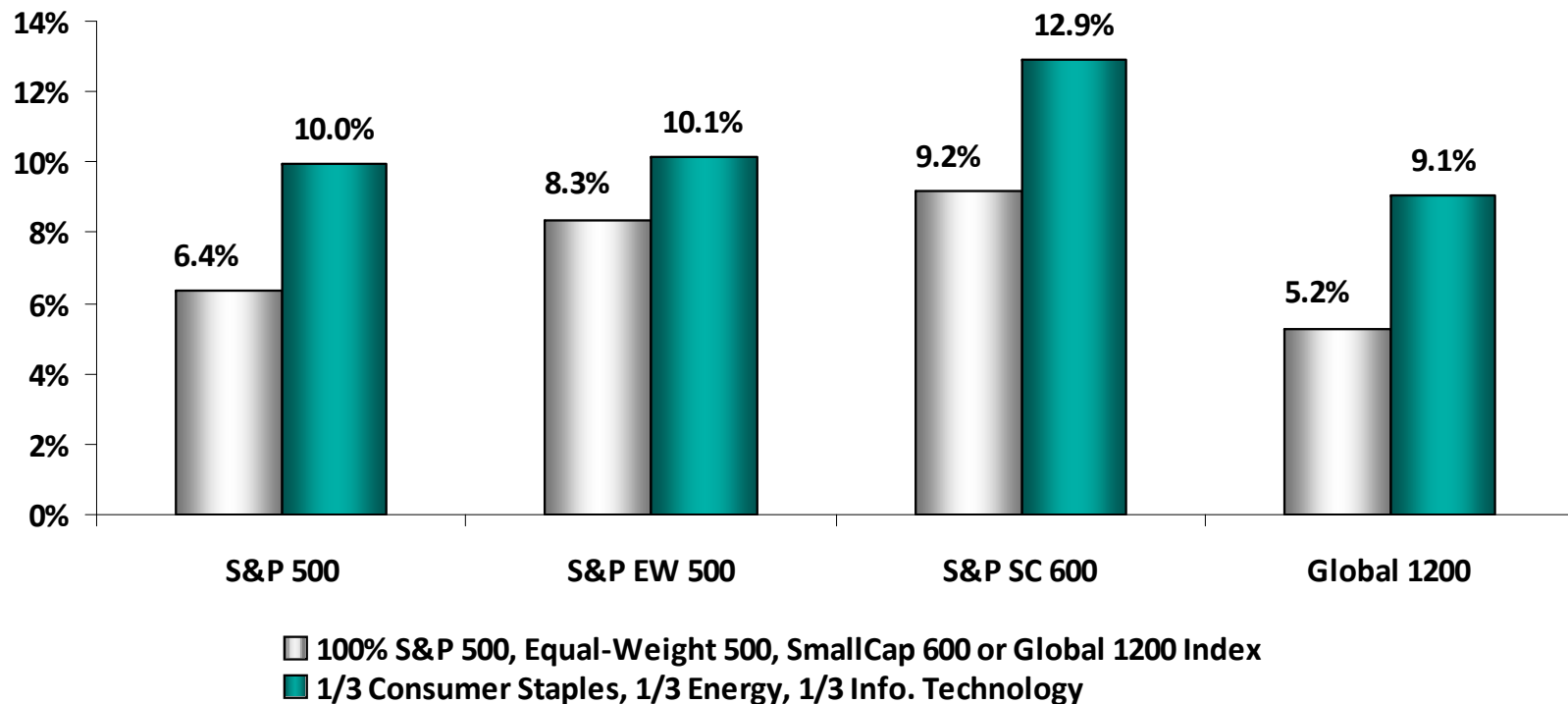
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Correlation: “Free Lunch” Strategy By Region and Cap Size

Hypothetical Compound Annual Growth Rates of the "Free Lunch" Strategy.

1/3 S&P 500 Consumer Staples, 1/3 Energy and 1/3 Info Technology Sectors, Rebalanced Annually: 12/31/94-4/30/12



Source: S&P Capital IQ. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. These results are inherently limited because they do not represent the results of actual trading and were constructed with the benefit of hindsight. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. S&P Indices and its affiliates do not sponsor, endorse, sell, promote or manage any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of any S&P Indices index. Past performance is no indication of future results.

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Neutralize: Equal Weighting

Returns, Yields and Weights for Cap.- vs. Equal-Weighted Indices: 12/31/99-4/30/12

Benchmark	C.A.G.R.	Return/ Risk Ratio	ETF Ticker	Price/ S&P Capital IQ Rank	Div. Yield (%)	Top-10 % Weight
S&P 500 (Cap. Weighted)	1.5%	0.09	SPY	140 OW	1.87	20.3%
S&P 500 (Equal Weighted)	6.8%	0.36	RSP	51 MW	1.34	2.7%
S&P MidCap 400 (CW)	8.1%	0.43	MDY	180 MW	0.70	6.6%
S&P MidCap 400 (EW)	9.9%	0.49	EWMD	32 MW	NA	2.8%
S&P SmallCap 600 (CW)	8.1%	0.40	IJR	75 MW	1.04	5.3%
S&P SmallCap 600 (EW)	9.5%	0.42	EWSM	32 MW	NA	2.1%

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Market Declines: Usually Better to Buy than Bail

S&P 500 Declines Since 1945: Magnitudes, Durations and Recoveries

Type (% Decline)	Count	Average % Chg.	Average	
			Duration in Months	Recovery Mos.
Pullbacks (5%-10%)	54	(7)	1	2
Corrections (10%-20%)	19	(14)	5	4
All Bears (20%+)	12	(28)	14	23
-- "Garden Variety" (20%-40%)	9	(26)	11	14
-- Mega-Meltdown (40%+)	3	(51)	23	63

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Balancing Fear & Greed: Living With Volatility

- **We Try to Anticipate It**
 - High Beta vs. Low Volatility
- **We Try to Neutralize It**
 - DCA & Lump Sum
 - Seasonality
 - Correlation
 - Equal Weighting
- **We Should Try to Benefit From It**
 - Usually Better to Buy than Bail

Source: S&P Capital IQ

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Glossary

S&P STARS - Since January 1, 1987, S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, S&P Capital IQ Equity Research has used STARS® methodology to rank Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Quality Rankings (also known as S&P Earnings & Dividend Rankings)- Growth and stability of earnings and dividends are deemed key elements in establishing S&P's earnings and dividend rankings for common stocks, which are designed to capsule the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B-	Lower
A	High	C	Lowest
A-	Above Average	D	In Reorganization
B+	Average	NR	Not Ranked
B	Below Average		

S&P Issuer Credit Rating - A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation.

S&P Capital IQ EPS Estimates – S&P Capital IQ earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, S&P Capital IQ EPS estimates reflect either forecasts of S&P Capital IQ equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by Capital IQ, a data provider to S&P Capital IQ Equity Research. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

S&P Core Earnings – S&P Capital IQ Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the S&P Capital IQ definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

S&P 12 Month Target Price – The S&P Capital IQ equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including S&P Fair Value.

Glossary continued

S&P Capital IQ Equity Research – S&P Capital IQ Equity Research U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes McGraw-Hill Financial Research Europe Limited trading as Standard & Poor's; Standard & Poor's Equity Research Services Asia includes McGraw-Hill Financial Singapore Pte. Limited's offices in Singapore, Standard & Poor's Investment Advisory Services (HK) Limited in Hong Kong, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

Abbreviations Used in S&P Capital IQ Equity Research Reports

CAGR- Compound Annual Growth Rate

CAPEX- Capital Expenditures

CY- Calendar Year

DCF- Discounted Cash Flow

EBIT- Earnings Before Interest and Taxes

EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization

EPS- Earnings Per Share

EV- Enterprise Value

FCF- Free Cash Flow

FFO- Funds From Operations

FY- Fiscal Year

P/E- Price/Earnings

PEG Ratio- P/E-to-Growth Ratio

PV- Present Value

R&D- Research & Development

ROE- Return on Equity

ROI- Return on Investment

ROIC- Return on Invested Capital

ROA- Return on Assets

SG&A- Selling, General & Administrative Expenses

WACC- Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

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Required Disclosures

In contrast to the qualitative STARS recommendations covered in this report, which are determined and assigned by S&P Capital IQ equity analysts, S&P's quantitative evaluations are derived from S&P's proprietary Fair Value quantitative model. In particular, the Fair Value Ranking methodology is a relative ranking methodology, whereas the STARS methodology is not. Because the Fair Value model and the STARS methodology reflect different criteria, assumptions and analytical methods, quantitative evaluations may at times differ from (or even contradict) an equity analyst's STARS recommendations. As a quantitative model, Fair Value relies on history and consensus estimates and does not introduce an element of subjectivity as can be the case with equity analysts in assigning STARS recommendations.

S&P Global STARS Distribution

In North America

As of March 31, 2012, research analysts at S&P Capital IQ Equity Research North America recommended 34.5% of issuers with buy recommendations, 57.9% with hold recommendations and 7.6% with sell recommendations.

In Europe

As of March 31, 2012, research analysts at S&P Capital IQ Equity Research Europe recommended 30.1% of issuers with buy recommendations, 49.4% with hold recommendations and 20.5% with sell recommendations.

In Asia

As of March 31, 2012, research analysts at S&P Capital IQ Equity Research Asia recommended 35.9% of issuers with buy recommendations, 54.3% with hold recommendations and 9.8% with sell recommendations.

Globally

As of March 31, 2012, research analysts at S&P Capital IQ Equity Research globally recommended 34.0% of issuers with buy recommendations, 56.3% with hold recommendations and 9.7% with sell recommendations.

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

4-STARS (Buy): Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

2-STARS (Sell): Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

1-STARS (Strong Sell): Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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