

# Industrials Sector Overview



# Industrials vs. S&P500



# Industrial Sector Returns

<b>Industries</b> (as of 10/3/11)	<b><u>1 Day</u></b>	<b><u>1 Week</u></b>	<b><u>1 Month</u></b>	<b><u>3 Months</u></b>	<b><u>YTD</u></b>	<b><u>1 Year</u></b>
S&P 500	-2.85%	-5.48%	-6.37%	-17.95%	-12.60%	-4.10%
Industrials	-3.00%	-5.64%	-7.86%	-25.17%	-18.63%	-9.65%
Aerospace & Defense	-2.75%	-4.10%	-2.93%	-21.57%	-11.01%	-4.03%
Air Freight & Logistics	-2.27%	-3.05%	-6.78%	-20.85%	-19.53%	-11.11%
Airlines	-8.58%	-15.61%	-10.91%	-36.86%	-43.37%	-43.20%
Building Products	-2.95%	-4.82%	-13.41%	-44.54%	-45.42%	-38.19%
Commercial Services & Supplies	-4.22%	-5.55%	-5.35%	-19.27%	-13.12%	-5.67%
Construction & Engineering	-3.58%	-9.72%	-15.03%	-25.72%	-27.65%	-11.92%
Electrical Equipment	-2.01%	-5.68%	-7.96%	-29.73%	-26.14%	-19.46%
Industrial Conglomerates	-3.13%	-6.01%	-7.16%	-24.19%	-18.39%	-11.36%
Machinery	-3.77%	-8.58%	-15.57%	-33.26%	-28.69%	-15.47%
Marine	-5.06%	-7.83%	-8.20%	-20.73%	2.56%	14.46%
Professional Services	-3.50%	-4.36%	-6.66%	-23.93%	-26.01%	-13.86%
Road & Rail	-1.99%	-4.36%	-9.64%	-26.45%	-12.35%	-0.72%
Trading Companies & Distributors	-3.46%	-8.35%	-1.17%	-10.67%	5.98%	21.29%
Transportation Infrastructure	--	--	--	--	--	--

# Current Weightings



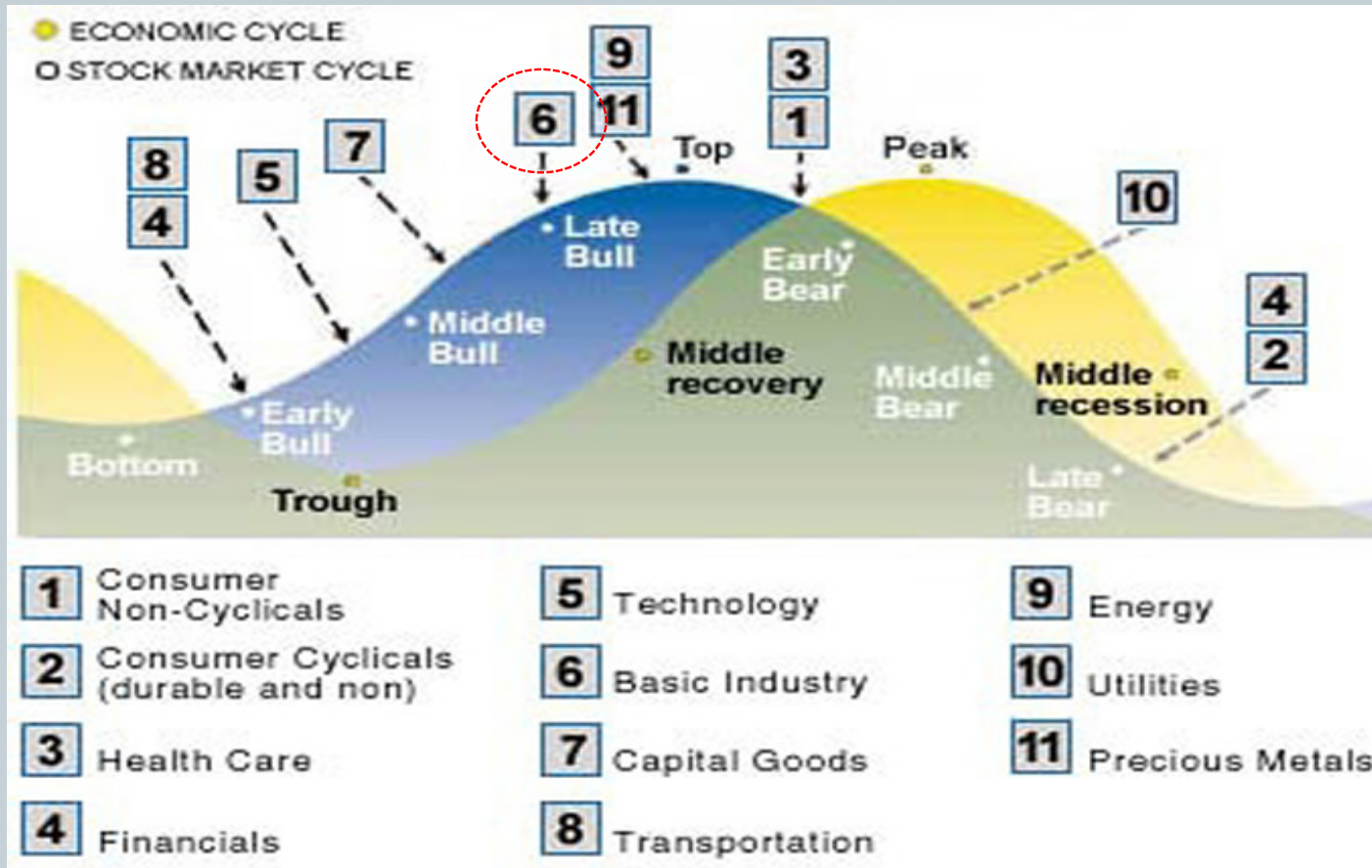
	<b>SMIF</b> (Equity)	<b>S&amp;P500</b> (Industrials)	<b>Difference</b>
<b>Weighting</b>	<b>10.43%</b>	<b>10.85%</b>	<b>(.42%)</b>
<b>Return Since Takeover</b>	<b>(41.48%)</b>	<b>(26.14%)</b>	<b>(15.34%)</b>

General Electric: **(30.24%)**

FSTR: **(52.21%)**

UPS: **1.3%** (since 10/3/11)

# Cyclical Nature



## Indicators

-Measure of below 50 projects negative outlook

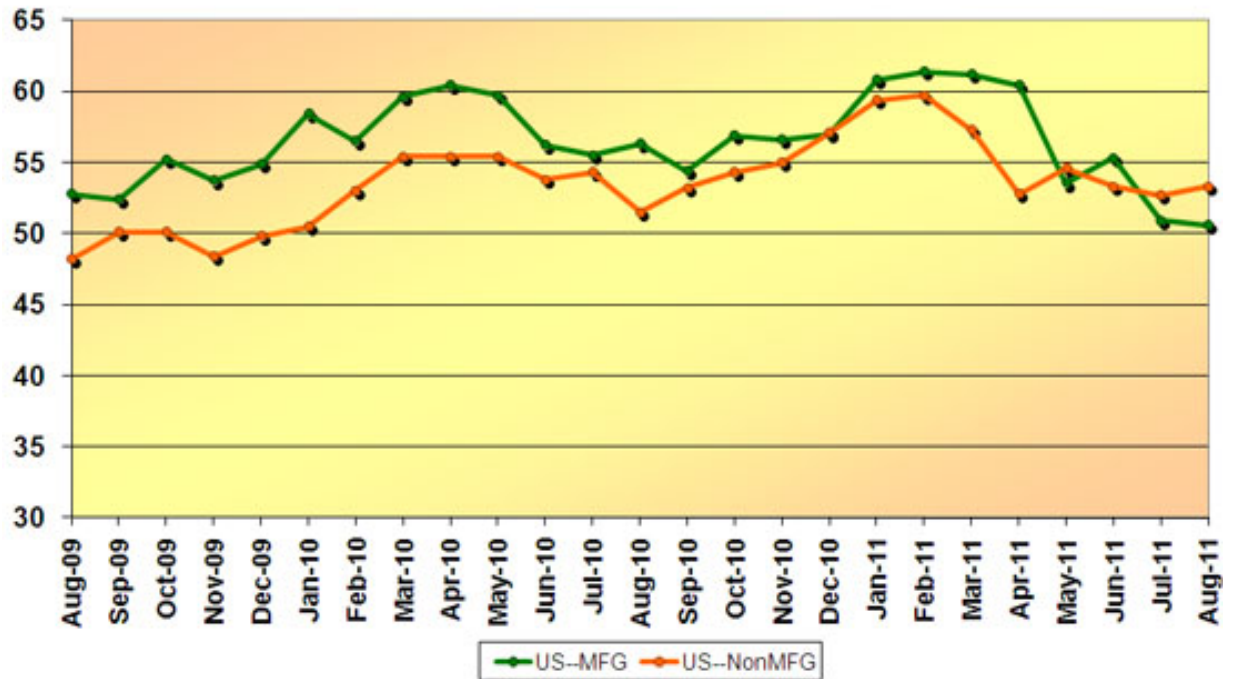
-Performance in line with overall market

-September PMI Released: 51.6 (up from 50.6 in August)

-Still low but signs of improvement!

## ● PMI

Institute for Supply Management  
U.S. Purchasing Managers' Indices

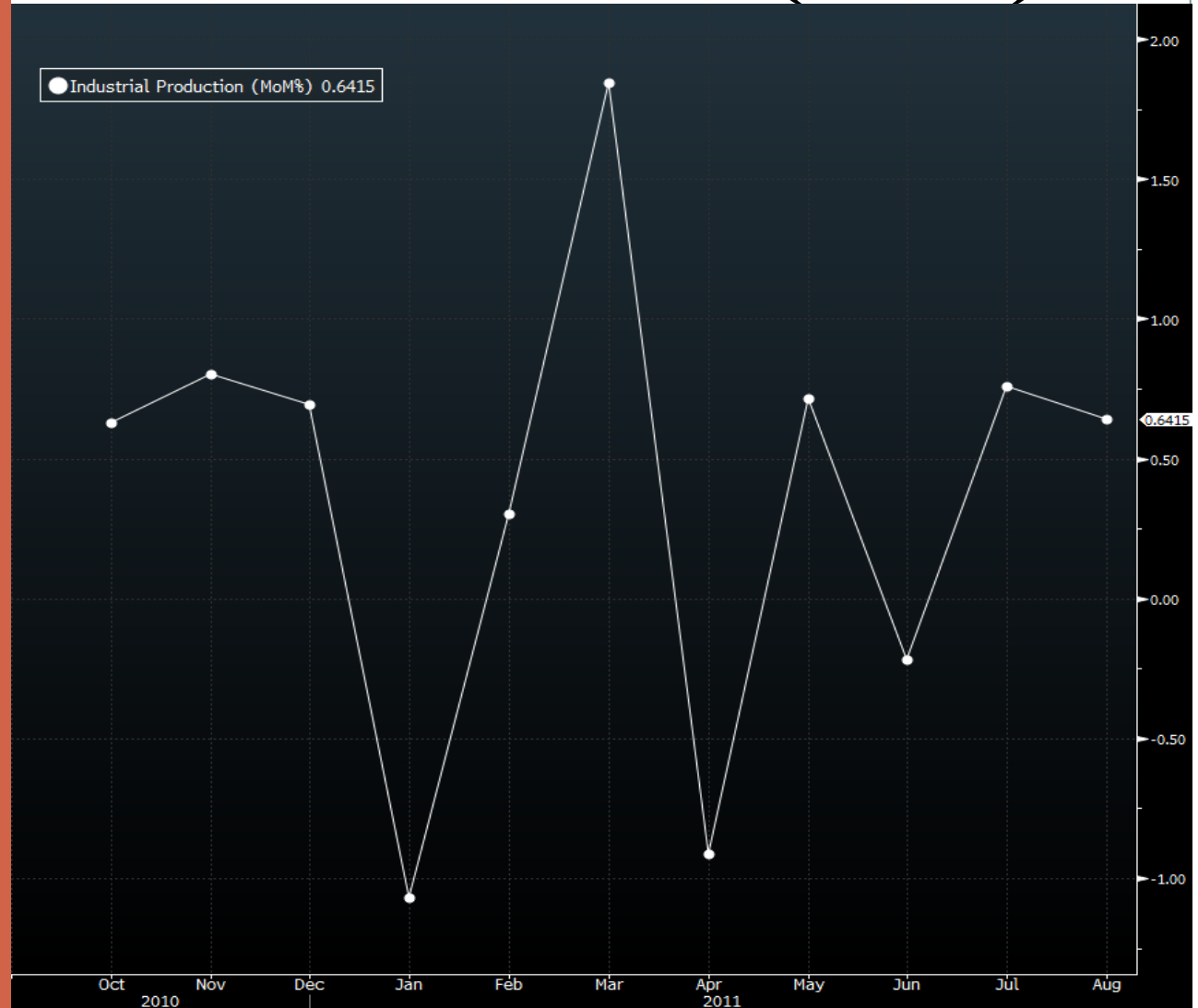


\*Construction spending up 1.4% in August  
(it was expected to decline)

## Indicators

- Declining Growth
- **+.64%** MoM (August)

## ● Industrial Production (MoM%)



# Outlook



- Sector will slow in line with overall economy in short term
  - But positive long-term outlook
- Q3 earnings are expected to decline by **(2.73%)** QOQ (as compared to **+4.6%** Q2 to Q3 2010) due to recent broader market turmoil
- However Q4 earnings outlook is positive at **+8.69%** QOQ (as compared to **+2.5%** Q3 to Q4 2010) with continued growth in FY 2012 at **+16.83%** YOY



# Takeaways



- Current allocation shows our neutral position (0.42%)
- Need decent exposure relative to S&P weighting to capture gains when the economy begins steady upturn
- Expect sector to remain in lull in line with broader economy
  - However, need to have a long-term investment horizon
- Remain **neutral** **BUT** need to diversify and increase holdings in sector to true large cap industrials
  - FSTR is microcap (Basic Materials)
  - GE is 70% revenue from industrials
  - Added UPS last week