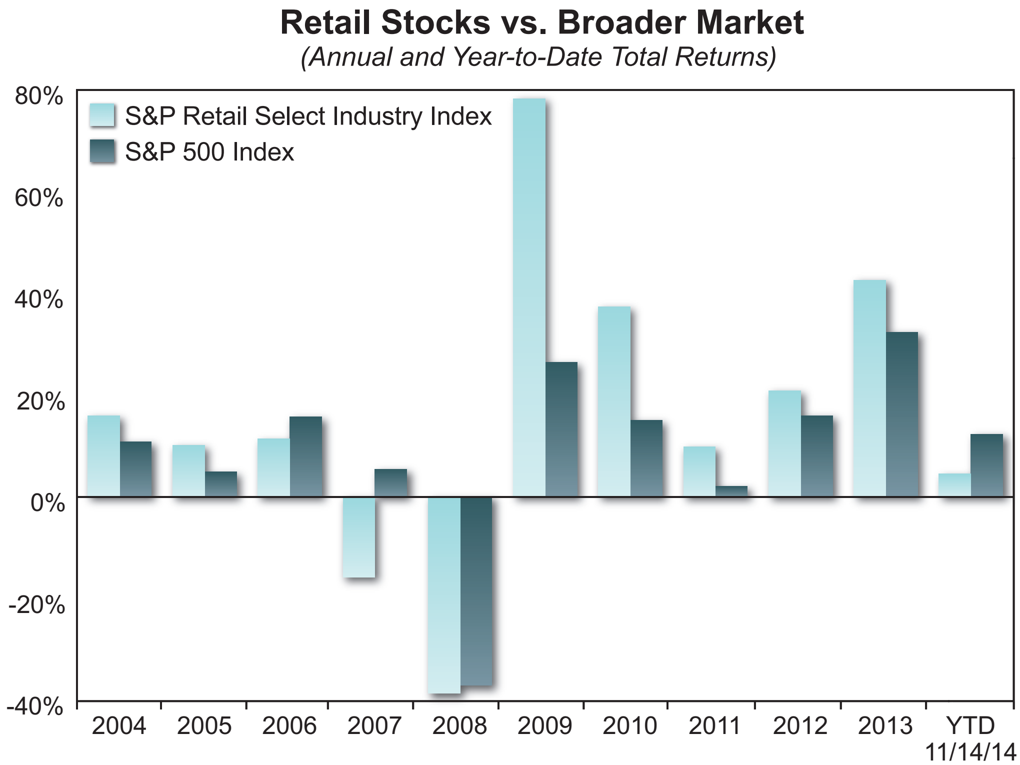
"Kicking The Tires" Of Retailers Heading Into 2015



Source: Bloomberg. Past performance is no guarantee of future results.

View from the Observation Deck

1. Over the past decade or so, the global economy and securities markets have endured many notable challenges, including wars, the 2008 financial crisis, natural disasters and numerous geopolitical events.
2. Despite all of the turbulence, the S&P 500 still managed to double in value from 2004-2013. The index posted a cumulative total return of 104.30% in that period.
3. Surprisingly, the S&P Retail Select Industry Index more than doubled the performance of the S&P 500 in the same period by posting a cumulative total return of 241.45%.
4. Why is that a surprise? One of the theories espoused by many in the media these days, in our opinion, is that the middle class in the U.S. is eroding and no longer participating in economic recoveries.
5. While we acknowledge that many Americans remain either unemployed or underemployed, we reject the notion that the middle class is not participating.
6. For the two-year period ended October 2014, retail sales in the U.S. were higher in 18 of the 24 months, according to data from the U.S. Census Bureau.
7. In October 2014, U.S. automobile sales totaled 16.35 million (annualized), topping the 15.74 million (annualized) average for the two-year period ended 10/14, according to data from Bloomberg.
8. Nonfarm payrolls in the U.S. rose 24 consecutive months through 10/14, with an average monthly increase of 210,320 jobs, according to the Bureau of Labor Statistics. More jobs tends to lead to more paychecks, which can potentially translate into higher consumption levels.
9. Confidence levels are rising. The Conference Board's Consumer Confidence Index stood at 94.48 in October 2014. It hasn't been at that high of a reading since October 2007, just prior to the financial crisis.
10. The S&P/Experian Consumer Credit Default Composite Index stood at 1.06% in October 2014, its lowest level since June 2006, according to data from S&P Dow Jones Indices. This indicates that consumers have been getting their respective fiscal houses in order, in our opinion.
11. The outlook for earnings is optimistic for retailers in 2015. Bloomberg's 2015 consensus earnings growth estimate for the S&P Retail Select Industry Index was 28.42% as of 11/17, compared to 8.70% for the S&P 500.

This chart is for illustrative purposes only and not indicative of any actual investment. There can be no assurance that any of the projections cited will occur. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks used to measure large-cap U.S. stock market performance, while the S&P Retail Select Industry Index is a benchmark comprised of stocks in the S&P Total Market Index that are classified in the GICS retail sub-industry.