



Decimation of the Finance Sector

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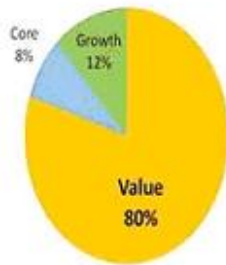
What a difference a year makes. The Finance sector is down 47% for the year ending October, 2008. Prices have fallen because earnings have fallen, transforming the characteristics of this sector in the process. To see this transformation we examine the fate of the 46 stocks that made up the large company finance sector one year ago, in October 2007. Details of these companies, then and now, are provided below. Good chance you'll find your own companies in this list. How have these stocks changed in the past 12 months? Some companies, 18 to be exact, have remained about the same, apparently unaffected by the crisis. These immune companies could come through this crisis as winners. 15 companies remain in the large cap category but their style has changed, generally moving from value to growth. 8 of these formerly large cap companies have moved into the mid cap range, and 2 – Freddie and Fannie – have become small cap. And 3 companies have ceased to exist.

The next exhibit show the style make-up and aggregate characteristics of the October, 2007 large cap Finance sector as it existed a year ago, and compares these to today's profiles for the same stocks. As you can see, 80% of the dollars in the 2007 Finance sector were classified as large value, whereas today only a third are large value, with much of the former value dollars moving to growth. Growth, at 38%, is now a larger component of the 2007 large Finance sector than value. Also, the total market value of this sector has declined by almost \$1 Trillion, from \$2.6 Trillion to \$1.7 Trillion. Average capitalization has declined from \$56.4 Billion to \$48.8 Billion, while P/E's have increased from 12.3 to 20.2. Earnings have fallen faster than prices, with some firms posting negative earnings for the trailing 12 months.

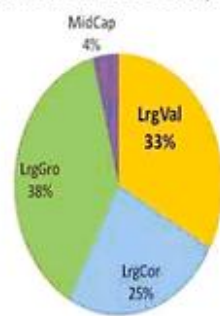
Large Financial Stocks Then and Now

Style Compositions

Large Financial October, 2007



Same Stocks as of October, 2008



Characteristics



In a nutshell, the decimation of the Finance sector has caused it to take on a smaller company, more growth orientation. You'd think the decrease in prices would have made these companies even deeper value, but earnings deterioration has more than offset the price erosion effect. In style space, these companies are priced to grow their way out of the current dilemma. This has significant implications for style specific portfolio managers and their evaluators. Most view Finance as a value play, but this is simply not the rule anymore, and may not be for some time. The game has changed, and the sooner we realize it the better. Index providers with annual June resets will ignore these changes for another 8 months, so the reader is forewarned.

Large Finance Companies Then and Now Source: PPCA Inc.

	October 2007			October 2008		
	Styl	Capzsn	P/E	Styl	Capzsn	P/E
ACE LTD	Valu	19.9	7.6		18.0	10.4
BANK OF AME	Valu	223.0	11.3		159.7	30.2
BB&T	Valu	22.2	14.0		20.9	12.8
FRANKLN RES	Core	31.3	17.9		20.7	13.1
BLACKROCK	Grow	20.1	26.5		22.8	23.8
BERKSHIRE A	Grow	183.3	15.1		202.3	17.9
CHUBB CORP	Valu	20.6	7.8		19.5	10.0
CME GROUP I	Grow	20.5	41.3		20.3	24.1
CAPITAL ONE	Valu	25.6	9.6		19.8	10.6
GOLDMAN SAC	Valu	86.2	8.4		50.5	7.3
METLIFE INC	Valu	51.8	13.8		39.8	11.5
MANULIFE	Valu	62.7	17.5		54.8	13.1



SUN LIFE FN	Valu	29.7	14.4		19.8	16.7
SUNTRUST	Valu	26.3	12.6		15.9	13.9
STATE ST CP	Core	26.2	17.6		24.5	12.9
TRAVELERS C	Valu	32.5	7.1		26.5	8.7
U S BANCORP	Valu	56.1	12.3		63.2	17.9
VORNADO RLT	Core	16.6	32.7		14.0	26.9

Style Changes - Large

AFLAC INC	Core	27.8	17.7	Lgro	28.0	19.5
ALLSTATE CP	Valu	32.8	6.8	Lgro	24.7	121.4
AM EXPRESS	Core	69.4	17.0	Lval	41.1	12.1
BROOKFIELD	Core	22.5	19.1	Lgro	16.0	23.1
BANK OF NY	Valu	50.3	18.4	Lcor	37.4	18.0
CITIGRP	Valu	232.5	12.4	Lgro	111.8	-4.8
JPMORGAN CH	Valu	153.9	9.6	Lcor	174.1	22.6
MERRIL LYNC	Valu	61.3	14.7	Lgro	40.5	-1.0
MORGAN STAN	Valu	66.9	7.8	Lgro	25.5	104.6
PNC FINL SV	Valu	23.0	13.1	Lcor	26.0	19.5
PRUDNTL FIN	Valu	45.0	11.9	Lgro	30.7	23.3
SCHWAB (CH)	Valu	27.0	25.7	Lgro	29.9	24.3
SIMON PPTY	Core	22.3	42.0	Lgro	21.8	46.0
UBS AG	Valu	102.8	9.1	Lgro	49.7	-1.6
WELLS FAR	Valu	118.4	13.3	Lcor	124.5	18.4

Style Changes -- MidCap

AM INTL GRP	Valu	174.5	11.0	Mgro	8.9	-.6
FIFTH THIRD	Valu	18.0	15.6	Mval	6.9	250.0
FANNIE MAE	Valu	59.1	16.7	Sgro	1.6	-.2
FREDDIE MAC	Grow	39.0	-40.4	Sgro	1.1	-.2
HARTFRD FNL	Valu	29.0	9.4	Mgro	12.3	-9.3
LINC NATL	Valu	17.9	11.9	Mval	11.0	13.8
NYSE EURONE	Grow	20.9	43.5	Mval	10.4	12.4
REGIONS FIN	Valu	20.6	12.1	Mval	6.6	9.5
SLM CORP	Grow	20.6	28.4	Mgro	5.8	-3.0
WACHOVIA	Valu	95.3	11.0	Mgro	7.5	-.2



Gone

LEHMAN BROS	Valu	32.7	7.8			
LOEWS CORP	Valu	25.9	11.9			
WASH MUTUAL	Valu	30.7	12.8			
		46	56.4	12.3	43	38.8 20.2

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