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## Muddling Along with this economy, but, positive strides are being made

The above sentiment is clearly the view from most Investment Managers after the start to second quarter earnings. Earnings seasons commenced to much anticipation, with all that has been happening around the globe, and investors awaited these earnings from such bell weather companies as Alcoa, Citi, GE, and Bank of America to name but four. Visa, the heartbeat of credit usage reports on the 28th of July and it is expected that they will not disappoint.

So, how did the first week of earnings season go? Let's take a very quick look.

**Alcoa (AA-us)** kicked things off, as they always do, with a huge swing to profit on higher sales volumes, demand, higher prices and also projected 6% annual global demand for aluminum over the next 10 years. Earnings Per Share were \$0.13 versus a loss of \$0.47 per share a year earlier for a swing of \$0.60 into the black. Revenue was higher by 22% to \$5.19 Billion. This is of great importance as Alcoa has always been the barometer for the success or failure in the global market place. Did it disappoint? I do not think so and for anyone to say otherwise would prove to be delusional, with what the global economy has had to contend with from the Sovereign Debt Issues to British Petroleum to the slowing of Chinese annualized growth to 10.5% versus 11% as previously expected. When you take all of that into consideration and look at the results from an intellectual point of view, you should feel comfortable in knowing and believing that things are improving and will continue to improve.

**General Electric (GE-us)** Reported an increase to profits of 14% or \$3.3 Billion over the same period last year which translates into \$0.30 EPS which is up from \$0.26 per year or \$2.66 Billion. The only issue with GE's earnings that I have is that the Top Line Revenues were thinner by 4.3% versus last years reports. Overall, this company is a Company of Hundreds of Companies and as I sit and review their performance, I am not disappointed as turning a cruise ship around takes time and turning this large investment vessel will take time too.

**Bank of America (BAC-us)** Second Quarter earnings were lower by 3% to \$3.12 billion or \$0.28 per share versus \$0.33 per share a year earlier. Revenues declined by 11% as banking as a whole became very difficult over the last year. Investment Banking was a positive for BAC as the Merrill Lynch division generated \$2.24 Billion to the top line of BAC which accounts for 11% of the overall revenues reported by BAC. This is a work in progress and with the newly passed financial reform bill awaiting Presidential signing the landscape of the US banking system will change and as a result I am not a huge fan of the sector. The greatest positive is that BAC is profitable and progressing to greater profitability each quarter. Remember, it was not too long ago that the US Financial Sector was facing Armageddon so I can wait a few more quarters to look more closely at this sector. It should be mentioned that I do like their bonds.

**Citi Bank (C-us)** Although Citi beat analysts expectations, I am more interested in what their loan loss and credit out look was. Revenue declined 13.0%, largely reflecting weaker market conditions in its Securities and Banking unit. Positively, revenue rose 1.4% in its International Consumer Banking segment, which comprises roughly 20% of total revenue. Fixed income and equity trading revenues declined 31% and 49%, respectively, from the prior quarter's level (adjusted for credit valuation effects). Results continue to be weighed down by losses in Citi Holdings, which increased on a sequential basis, but asset reduction continued at a measured pace. Although consumer-related credit costs remain elevated, net credit losses were down \$422 million quarter-to-quarter, and there were continued signs of improvement in credit metrics across Citi's U.S. and international consumer portfolios. Citi's Tier 1 capital ratio was, in my view, a relatively healthy 12.0%, and its Tier 1 common ratio was 9.7%. Citi was once rumored to be shutting its doors as had Bear Stearns and Lehman Brothers Holdings, so, I am pleased that they are profitable and have paid back the TARP money that the US Government injected into them. As all of the above, it is a slow but steady process going forward.

Let me reaffirm my thoughts on the first week of earnings :

*"Muddling Along with this economy, but, positive strides are being made"*

I think that the above still captures the sentiment that I share with many investment professionals with one caveat, the above earnings results are US Companies that have global reaching economic consequences and whose results have a bearing on the mindset of the global investor and how the global investors makes his or her next investment moves. With that said, I do believe that the driver of a global recover will come from North American companies and markets as a whole.