

Communications Sector Report

By: Ryan Ness

Size and Composition of Sector

- As of September 10th, the market cap for the communications sector was 6.93 trillion dollars. There are 5 main industries within the communication sector, with the interactive media and services industry yielding a 51.58% YTD return (September 10th, 2021).
- The one-year return for the communications sector is 41.89% (September 1st, 2020), beating the S&P 500 by 8.07%.
- The S&P 500 has the communications sector at a weight of 11.48% (September 3rd, 2021). With our current holdings, the communications sector has a total weight of 6.7% (September 9th, 2021). The target weight set from Spring of 2021 for the Wiseman Fund is 11.0%. This means compared to our own target and the S&P target for the communications sector we are underweight for the sector.
- The communications sector has returned 9.20% in the past 3 months (September 10th, 2021), and 2.90% in the past month (September 10th, 2021).
- Facebook is part of the interactive media & sales industry while Disney is a part of the entertainment industry within this sector.

Business Analysis

- Historically the communications sector has underperformed through the early-cycle phase, but its evolution towards a more diverse future has led to this historical pattern becoming more inaccurate.
- I believe we are at the end of the early business cycle or the very beginning of the mid-cycle phase, the mid-cycle typically lasts the longest out of all the phases and is characterized by positive but moderate growth all around.
- This sector is extremely hard to enter and is dominated by massive brands that will either eat you up or buy you out. While it isn't impossible to grow in this sector, brands like Facebook and Disney both have massive competitive advantages against any potential competition.
- Once the mid-cycle phase starts, the communication sector typically excels in growth largely due to the strength of the media industry.

Economic Analysis

- The communications sector relies on one main thing, that being the different ways people communicate. Whether that be going to a resort-like Disney, online services such as Facebook, traditional media such as The New York Post, or even cable tv. If one of these channels is taken away, others may flourish under the new societal changes.
- Choice has been the new trend when it comes to some of these companies, more people don't want to be locked into contracts with cable tv, magazines/news, and/or phone plans.
- Freedom of speech has often been critiqued for some of these sights, while most of the time it's 'for the best' public opinion has swayed the past couple of years toward a more restrictive and sensitive way of communication.
- Communication Services isn't necessarily known as a defensive or offensive sector, however, it typically is a consistent yielding sector with only the recession phase causing most of the damage.

Financial Analysis

- The P/E ratio for the communications sector last year was 28.91 and the expected P/E ratio for this year is 20.29, this means the stock's price is comparably lower than the earnings.
- The trailing-twelve-month EPS for the communications sector is \$28.88. The EPS for the TTM compared to the TTM prior is 78.84% higher, leading us to believe that earnings have drastically increased for this sector in the past year.
- ROE for this sector is 19.13% and ROI is 13.02% for the trailing twelve months and the average dividend yield is 4.05%.
- The interactive media & sales industry (Facebook) saw huge gains in their EPS as it grew 117.10% (TTM vs. Prior TTM) to an EPS of \$55.40. While the average dividend for this industry is smaller, only yielding a 2.43% dividend, their ROE is up to 23.58% and ROI is 22.44%.
- The takeaway from this analysis is that this sector as a whole has experienced growth over the past year, with the biggest industry, that being interactive media & sales, being the largest reason behind that.

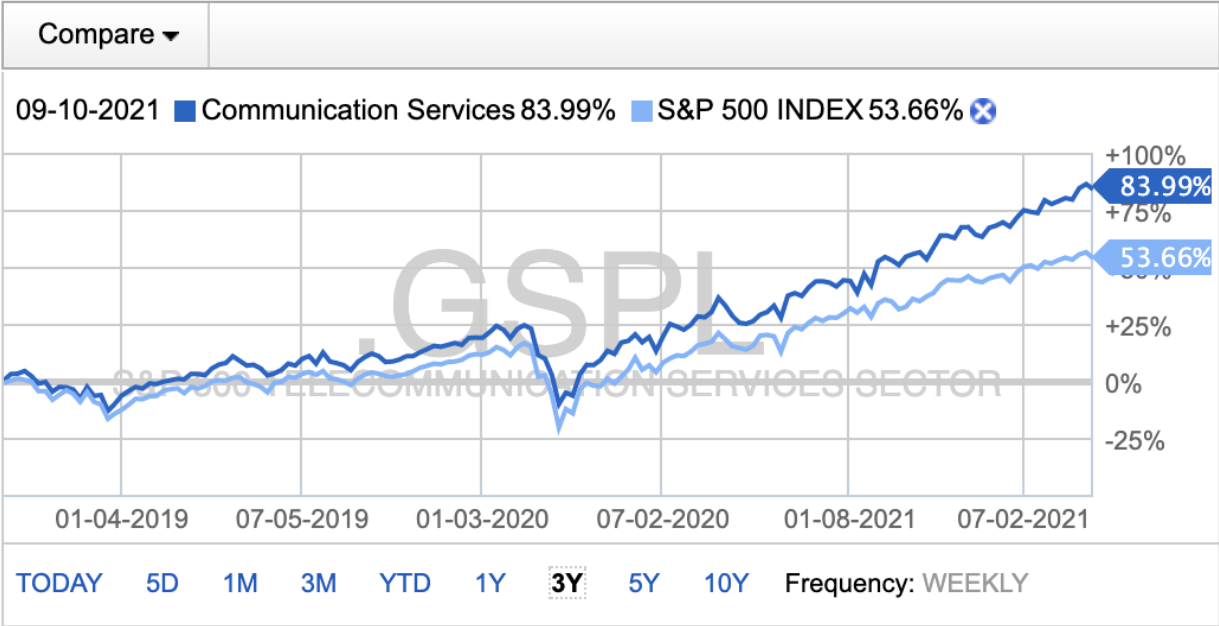
Valuation Analysis

- Comparing ratios from the S&P 500 to the communications sector shows us that the communications sector had a P/E ratio of 28.91 for last year, while the expected P/E ratio for this year is 20.29. Again this just means that the earnings across the board have increased but this is not reflecting in an increased stock price.
- The S&P 500's P/E ratio was 35.96 in 2020 and with estimates of ending 2021 with a P/E ratio of 34.78 we see a similar result to the communication sector. While it's not as big of a move, it still shows earnings are increasing but the underlying stock price is not increasing as much.
- I believe the earnings will stay consistent for the communications sector, especially for the two stocks we own, until their competitive advantage is challenged by another competitor. I think it's safe to say these are both long-term holds.

Recommendations

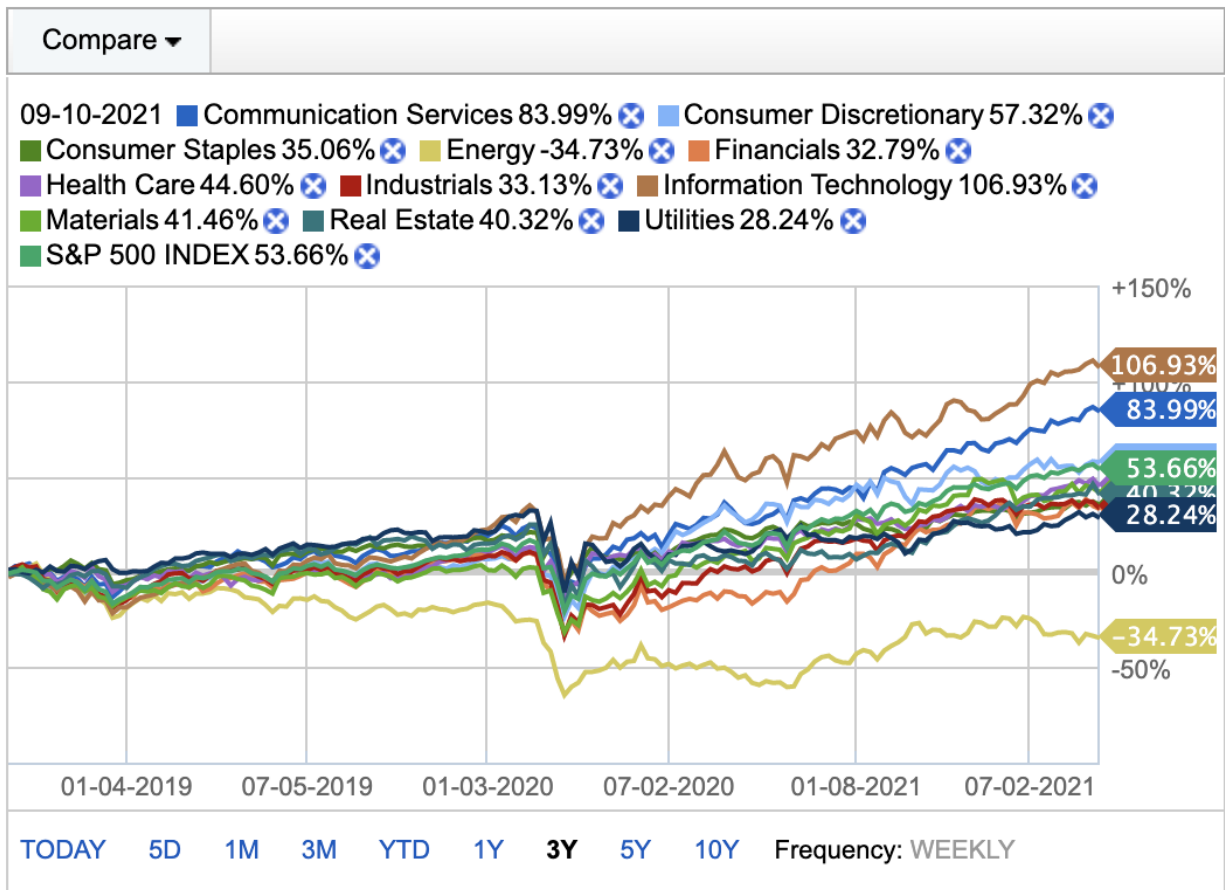
- At the moment I think it's best we keep both Disney and Facebook in our fund, Facebook on average has returned a 2.97% monthly rise for our holding period while Disney has a slightly higher benchmark of 3.46% for their holding period.
- I propose that we up the total weight for this sector this semester, with emphasis outside of the already owned Facebook and Disney stocks.
- With interactive media & services having the highest return over the past year, it could be worth it to overweight this industry within the communications sector.
- My one catalyst for this sector would have to be the current situation regarding Covid-19 and how different variants might cause another lockdown. If another lockdown is inevitable, it might be worth it to overweight this sector as a repeat of 2020's economic boom for communication could come again.

Important Information



Industry ▲	Last % Change 05:30 PM ET 09/10/2021	% CHANGE			
		YTD	1 - Year	3 - Year	5 - Year
Communication Services	-0.90%	+27.67%	+40.60%	+83.85%	+67.76%
Diversified Telecommunication Services	-0.69%	-6.07%	-8.24%	-9.25%	-17.20%
Entertainment	-0.15%	+2.33%	--	--	--
Interactive Media & Services	-1.22%	+51.58%	--	--	--
Media	-0.53%	+14.89%	--	--	--
Wireless Telecommunication Services	-0.48%	--	--	--	--
S&P 500 ® Index	-0.77%	+18.70%	+31.17%	+55.26%	+109.54%

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			
Real Estate	++			--
Consumer Discretionary	+	-	--	
Technology	+	+	--	--
Industrials	++			--
Materials	+	--	++	
Consumer Staples			++	++
Health Care	--		++	++
Energy	--		++	
Communication Services		+		-
Utilities	--	-	+	++



Sector
[Expand All](#) | [Collapse All](#)

Last % Change
AS OF 04:56 PM ET
09/10/2021

Market Cap
09/10/2021

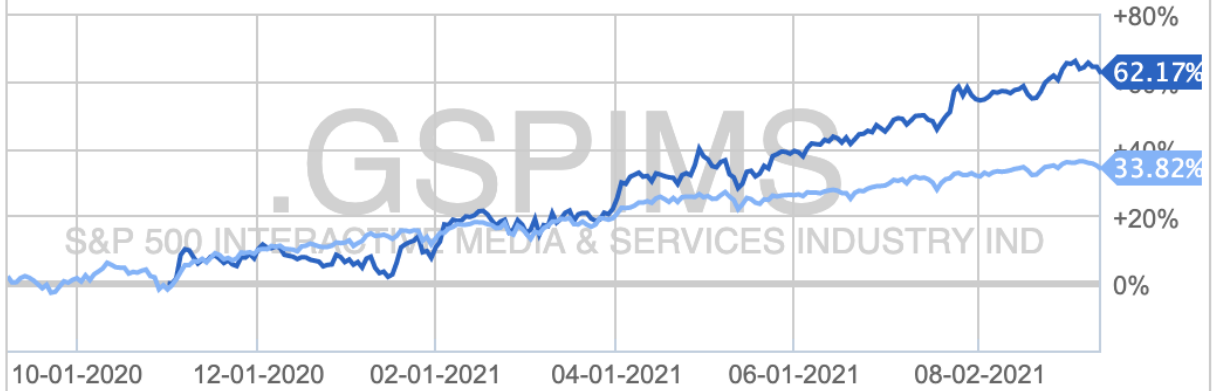
1-Year % Change
09/10/2021

Sector	Last % Change	Market Cap	1-Year % Change
+ Communication Services 5 Industries	-0.90%	\$6.94T	+40.60%
+ Consumer Discretionary 11 Industries	-0.57%	\$9.09T	+19.60%
+ Consumer Staples 6 Industries	-0.34%	\$4.59T	+11.77%
+ Energy 2 Industries	-0.04%	\$2.64T	+41.70%
+ Financials 7 Industries	-0.65%	\$8.65T	+51.24%
+ Health Care 6 Industries	-0.94%	\$8.38T	+25.90%
+ Industrials 14 Industries	-0.47%	\$5.84T	+31.61%
+ Information Technology 6 Industries	-0.99%	\$15.95T	+34.26%
+ Materials 5 Industries	-0.05%	\$2.67T	+29.25%
+ Real Estate 2 Industries	-1.23%	\$1.72T	+30.43%
+ Utilities 5 Industries	-1.38%	\$1.65T	+14.61%
S&P 500 ® Index	-0.77%	--	+31.17%

Reset Chart

Compare ▼

09-10-2021 ■ Interactive Media & Services 62.17% ■ S&P 500 INDEX 33.82% ✕



TODAY 5D 1M 3M YTD **1Y** 3Y 5Y 10Y Frequency: DAILY

Real Estate Sector Report

By: Ryan Ness

Size and Composition of Sector

- As of September 10th, the market cap for the real estate sector was 1.72 trillion dollars. There are 2 main industries within the real estate sector, with the real estate management and development industry yielding a 54.51% YTD return (September 10th, 2021).
- The one-year return for the real estate sector is 32.03% (September 1st, 2020), trailing the S&P 500 by 1.79%.
- The S&P 500 has the real estate sector at a weight of 2.68% (September 3rd, 2021). With our current holdings, the real estate sector has a total weight of 2.3% (September 9th, 2021). The target weight set from Spring of 2021 for the Wiseman Fund is 2.25%. This means compared to our target weight we are slightly overweight but compared to the S&P 500 target we are still underweight.
- The real estate sector has returned 3.67% in the past 3 months (September 10th, 2021), and 0.16% in the past month (September 10th, 2021).

Business Analysis

- This sector is extremely sensitive to interest rates, with interest rates the lowest ever and more money in circulation as well real estate prices have peaked at all-time highs and all-time lows of supply.
- I believe we are at the end of the early business cycle or the very beginning of the mid-cycle phase, the mid-cycle typically lasts the longest out of all the phases and is characterized by positive but moderate growth all around.
- This sector is slightly easier to enter than the communications sector but is still risky to get into. Most companies are formed as REITS and have to pay 90% of their taxable income to shareholders, typically employees and founders own the most shares.
- This sector is also unique from the need behind it. Unlike Facebook or Disney, housing is an absolutely necessary thing to have, especially as the population grows (United States) around 2-4 million people a year.

- It's typical to see a recession in the real estate market every 8-12 years, and while the last major crash was back in 2008-2009, with the demand for affordable housing we see now it's unlikely we will see a recession in the next year.

Economic Analysis

- The retail and hotel sectors were hurt the most by the covid pandemic but since the announcement of the vaccine, they have massively outperformed the broader real estate market.
- Real estate grows when interest rates are low and since the Federal Reserve dropped interest rates to 0% in 2020 to try and reverse the effects the lockdown had on the economy, the real estate sector has been booming.
- Originally the Federal Reserve said they were not going to raise interest rates until the end of 2024, but as inflation rises and other factors have pushed the Federal Reserve towards raising rates sooner than expected, potentially as soon as Q1 of 2023.
- Rent memorandum has been extended to October 3rd, 2021. It is predicted that without this memorandum in place 3.6 million Americans would be evicted from their primary residence with nowhere to go.
- Throughout 2020 and 2021 housing prices have skyrocketed due to the low interest, low supply of goods (wood, steel, etc.), and Americans wanting to find somewhere to park their money since inflation is so high. On average housing prices have risen 17.6% this past year, with some areas seeing marks of 20-30% increases.

Financial Analysis

- The P/E ratio for the real estate sector last year was 54.08 and the expected P/E ratio for this year is 34.23, this means the stock's price is comparably lower than the earnings.
- The trailing-twelve-month EPS for the real estate sector is \$2.45. The EPS for the TTM compared to the TTM prior is 29.22% higher.
- ROE for this sector is 21.56% and ROI is 17.14% for the trailing twelve months and the average dividend yield is 2.75%.
- The equity real estate investment trust industry (American Tower Corp.) saw gains in their EPS as it grew 22.76% (TTM vs. Prior TTM) to an EPS of \$2.50. While the average

dividend for this industry is slightly larger, only yielding a 2.79% dividend, their ROE is up to 12.31% and ROI is 3.52%.

- The takeaway from this analysis is that this sector as a whole has had steady growth over the past year, while returns have been larger than usual, it's fair to assume no massive jumps in EPS, ROI, or earnings will happen.

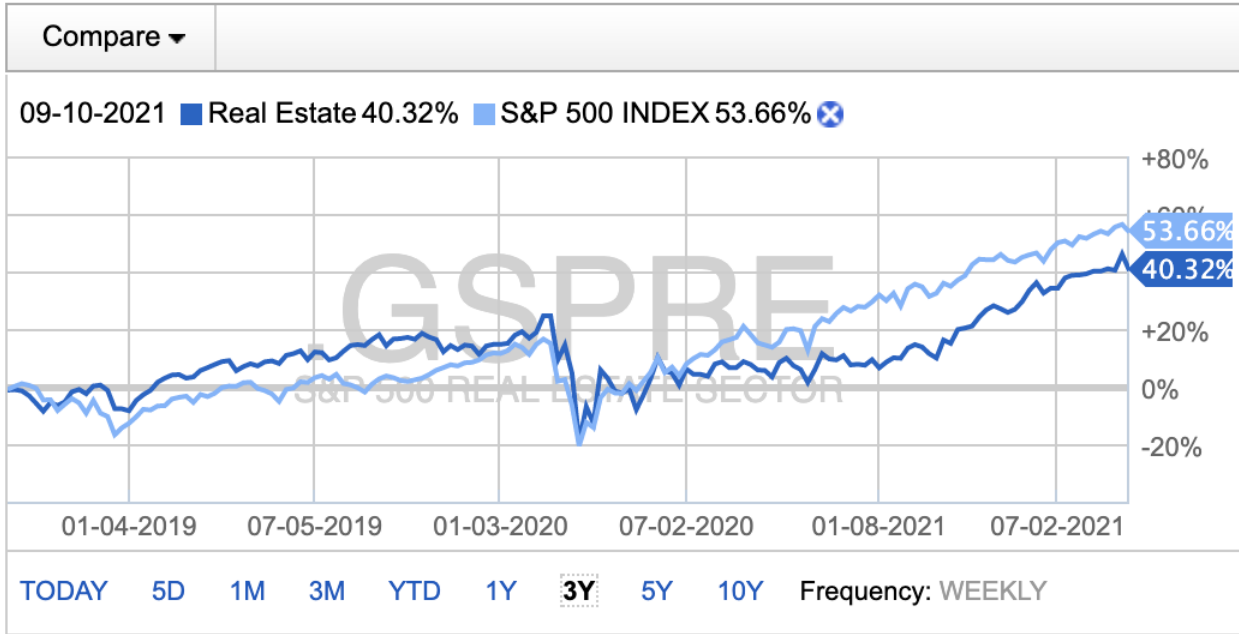
Valuation Analysis

- Comparing ratios from the S&P 500 to the real estate sector shows us that the real estate sector had a P/E ratio of 54.08 for last year, while the expected P/E ratio for this year is 34.23. Again this just means that the earnings across the board have increased but this is not reflecting in an increased stock price.
- The S&P 500's P/E ratio was 35.96 in 2020 and with estimates of ending 2021 with a P/E ratio of 34.78 we see a similar result to the year expected P/E for the real estate sector.
- I believe the earnings will be more volatile for real estate these upcoming quarters due to the rent memorandum, rising interest rates, waning demand, and many other influencing factors.

Recommendations

- At this moment in time, I would say we keep the weight for the real estate sector the same and keep our holding of AMT. Averaged out over our holding lifetime, AMT has returned around 2.24% per month for a total holding return of 177.2%.
- I would like to propose a sale of AMT sometime in the future, especially with their hesitancy towards getting into the 5G tower business and replace it with another established company.
- My one catalyst for this sector would have to be the current rent memorandum, while AMT doesn't deal with residential or commercial housing. If the results of foreclosures across the nation are as bad as I expect we may see some ripple effects throughout the entire real estate industry.

Important Information

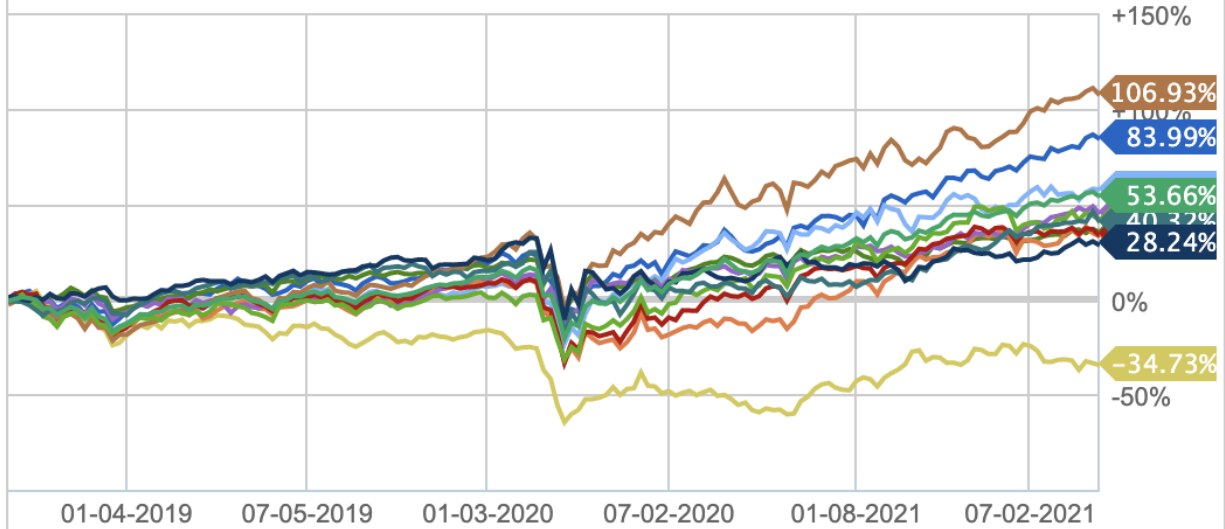


Industry ▲	Last % Change 04:56 PM ET 09/10/2021	% CHANGE			
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Real Estate	-1.23%	+28.35%	+30.43%	+42.07%	--
Equity Real Estate Investment Trusts	-1.23%	+27.61%	+28.89%	+40.48%	--
Real Estate Management & Development	-1.25%	+54.51%	+99.69%	+111.59%	--
S&P 500 ® Index	-0.77%	+18.70%	+31.17%	+55.26%	+109.54%

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Technology	+	+	--	--
Industrials	++			--
Materials	+	--	++	
Consumer Staples			++	++
Health Care	--		++	++
Energy	--		++	
Communication Services		+		-
Utilities	--	-	+	++

Compare ▾

09-10-2021 ■ Communication Services 83.99% ✕ ■ Consumer Discretionary 57.32% ✕
■ Consumer Staples 35.06% ✕ ■ Energy -34.73% ✕ ■ Financials 32.79% ✕
■ Health Care 44.60% ✕ ■ Industrials 33.13% ✕ ■ Information Technology 106.93% ✕
■ Materials 41.46% ✕ ■ Real Estate 40.32% ✕ ■ Utilities 28.24% ✕
■ S&P 500 INDEX 53.66% ✕



TODAY 5D 1M 3M YTD 1Y 3Y 5Y 10Y Frequency: WEEKLY

Sector
[Expand All](#) | [Collapse All](#)

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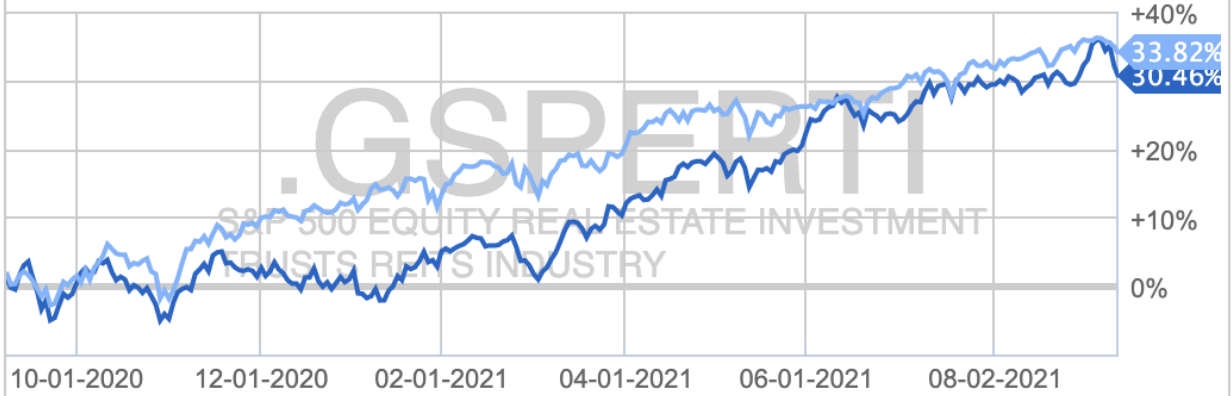
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09-10-2021 ■ Equity Real Estate Investment Trusts 30.46% ■ S&P 500 INDEX 33.82% ✕



TODAY 5D 1M 3M YTD 1Y 3Y 5Y 10Y Frequency: DAILY