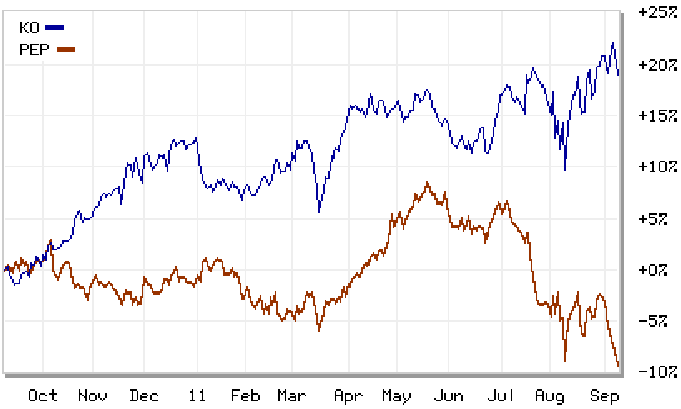
Chart of the Month

September 2011

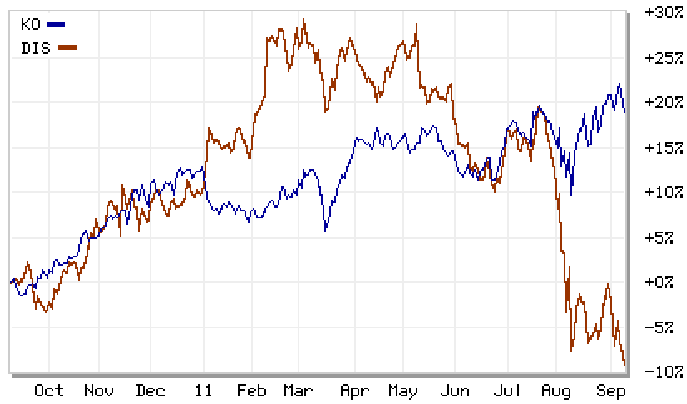
Earlier this month, we sold Coca-Cola (KO) and purchased PepsiCo (PEP) for our Equity Income strategy and Walt Disney (DIS) for our Growth strategy. While we like Coca-Cola as a company, we believe the stock was richly priced compared to Pepsi and Disney. As shown in the graphs below, KO (+20%) had outperformed both PEP (-10%) and DIS (-10%) over the past year by approximately 30% despite the similarities between the former two and the fact that all three companies are blue chips with iconic brands.

Coca-Cola vs Pepsico



	Coca-Cola (KO)	Pepsico (PEP)
Price	$69.00	$60.00
LTM EPS	$3.67	$4.22
NTM EPS	$4.09	$4.66
P/E LTM	18.8x	14.2x
P/E NTM	16.9x	12.9x
Div/Share	$1.88	$2.06
Yield	2.7%	3.4%

Coca-Cola vs Walt Disney



	Coca-Cola (KO)	Walt Disney (DIS)
Price	$69.00	$31.00
LTM EPS	$3.67	$2.40
NTM EPS	$4.09	$2.91
P/E LTM	18.8x	12.9x
P/E NTM	16.9x	10.7x
Div/Share	$1.88	$0.40
Yield	2.7%	1.3%

Our swaps were not only in the spirit of buying low and selling high but designed to take advantage of the valuation gaps between KO-PEP and KO-DIS. Of note, Coca-Cola is now trading at 18.8x its last twelve months (LTM) earnings and 16.9x its projected next twelve months (NTM) earnings. By comparison, Pepsi (14.2x and 12.9x) and Disney (12.9x and 10.7x) are trading at approximately 25% and 30-35% discounts, respectively, as measured by the price/earnings (P/E) ratios. In addition, PEP offers a higher dividend per share ($2.06 vs. $1.88) at a lower price ($60 vs. $69), providing a superior yield (3.4% vs. 2.7%) for clients seeking income. Although the dividend yield for DIS is lower than KO, we are more concerned about the prospects for capital appreciation for clients seeking growth.