

## Industry Investment Sectors

### **Aerospace & Defense**

The Aerospace & Defense Industry serves, as its name represents, two main markets: Aerospace, which largely comprises the production, sale, and service of commercial aircraft. And Defense, which is dependent on the nation's need for military weapons and systems designed to operate on land, sea, and in the air. Also included in this industry is the production of general aircraft (mostly for business use) and space vehicles, usually satellites, for both military and commercial use. Most commercial aircraft are sold to the world's airlines. The United States military comprises by far, the largest market for defense equipment, systems, and services in the world.

### **Air Transport**

The Air Transport Industry primarily contains domestic carriers that focus on passenger service.

### **Apparel (Tough Area due to Foreign Competition)**

The Apparel Industry is fragmented and highly competitive. There are a number of major players, but there are also countless niche stores and private companies that cater to specific demographics. Too, general merchandisers and foreign companies bring more competition to the sector. Consequently, apparel companies need to be nimble and highly efficient to survive in this cutthroat industry. Having the right product is also essential. Fashion trends change frequently, and companies need to adapt to varying consumer tastes quickly.

Apparel stocks are economically sensitive. Although clothing is a basic need, people have wide discretion as to when they update their wardrobes and how much they spend. When times are good, apparel sales are usually brisk, but during periods of economic uncertainty and contraction, clothing is an area where people can easily trim outlays.

### **Automotive -- Retail**

The Retail Automotive Industry is comprised of two kinds of companies: those that sell replacement automotive parts and accessories to "do-it-yourself" customers and to commercial "do-it-for-me" clients; and those that sell a wide assortment of new and used vehicles over the Internet and networks of regional or national franchised dealerships.

### **Beverages**

The Beverage Industry is a mature sector and includes companies that market nonalcoholic and alcoholic items. Since growth opportunities are limited, many members of the industry endeavor to diversify their offerings to better compete and gain share. Too, they may pursue lucrative distribution arrangements and/or acquisitions to expand their operations and geographic reach.

### **Biotechnology**

The Biotechnology Industry is a highly volatile and unpredictable sector due to the scientifically intensive nature of the operations of companies that reside here. This industry emerged in the 1970s, with the main goal of enhancing the quality of human life. Biotech firms differ from conventional drug makers in that they utilize natural ingredients, as opposed to synthetic ones. Drugs are manufactured in a living system, i.e., a microorganism, plant or cell.

### **Building Materials**

Although building product usage often crosses several subsectors, many companies are dependent on one single market. A company's business description may show that it primarily serves the home repair & remodel market, a stable venue, as opposed to new home construction. Other companies may dominate a niche market, such as drywall or insulation. This usually doesn't translate into substantial pricing power, however; high sales volume can be more beneficial to the bottom line.

Geographic diversity is also an important consideration. The health of the construction sector can vary widely among domestic regions. Exports are not viable due to the high cost of shipping heavy materials. Some suppliers have overseas operations, which can help to offset problems in the U.S.

### **Building Supply -- Retail**

Homeowners and professional contractors visit companies in the Retail Building Supply Industry to purchase the materials and tools necessary to build houses, complete remodeling projects, and perform household chores and maintenance.

Overall, the industry is mature, and its sales growth tends to move roughly in line with the trends of the broader economy. This group is highly competitive, and is dominated by a couple of big multinational warehouse chains. The remainder of the industry is comprised mostly of small, specialty retailers, serving niche markets. The few publicly traded companies compete against a large number of private hardware stores and lumber yards.

The state of the housing market has a huge impact on the Retail Building Supply industry, and is a key determinant of the health of sales and earnings.

## **Chemicals**

The companies that make up the Chemical/Diversified Industry sector are largely intermediate producers of a broad array of chemicals and industrial gases. Their products are mostly used as raw materials by manufacturing industries. Major end markets served include automotive (plastics, paints), residential (carpets, fixtures, furniture) and commercial construction (glass, metals, wood), agriculture (fertilizers, herbicides, and pesticides), commercial aerospace (carbon fiber composites), and general manufacturing customers.

## **Computer Software & Services Industry**

The Computer Software & Services Industry includes a broad range of companies, offering a wide range of products and services, spanning personal computer operating systems and office productivity suites to network security applications to payroll processing services to information technology consulting and outsourcing services. The group's end markets are also wide ranging, with nearly every facet of the global economy being targeted.

Broadly speaking, this industry can be broken into two, though somewhat overlapping, segments—one in which the primary product is a suite of software and services offered via a perpetual license agreement (the customer purchases the software), and one in which a combination of software and services is offered as a tailored solution to a vertical market's recurring need (customers usually contract for services).

## **Computers & Peripherals**

The Computer and Peripherals Industry is composed of a diverse group of companies. It produces a wide range of products for sale to just about all businesses and consumers. The industry tends to trail the economic cycle, and is very competitive.

## **Electric Utilities**

### **Electrical Equipment & Appliances**

The Electrical Equipment Industry consists of companies that make a range of products for a diverse customer base. This sector is fragmented, but there are a few members that lay claim to a sizable portion of sales. Products include electrical motors, commercial and industrial lighting fixtures, heating, ventilation and air conditioning systems and components, and, among others, electrical power equipment.

## **Environmental**

Waste collection and disposal services to municipalities and businesses. Their collection routes and landfills are found in most regions of the United States. The other major group in the Environmental Industry provides various services, including the removal of toxic waste from soil and pollutants from air and water.

### **Fabricated Metal Products**

This industry produces hundreds of thousands of materials and components used by a variety of manufacturers, many of which are highly cyclical. End customers reside in the auto, residential and commercial construction, mining, energy, aerospace, general industrial and other sectors.

### **Food Processing**

Companies generate revenue from the sale of food and ingredients to a whole host of customers, ranging from supermarket chains and local bodegas to restaurants and other players further down the processing chain.

### **Furniture & Fixtures (Tough Area due to Foreign Competition)**

The Furniture and Home Furnishings Industry consists of businesses that manufacture and sell furniture, textiles and related goods to residences, offices, hotels and others in the commercial space. Offerings include upholstery, case goods, bedding, seating, hearth products and fabrics.

### **Heavy Truck Industry**

### **Machinery Industry**

The Machinery Industry is a cyclical, capital-intensive sector. Major markets served include agricultural, construction, energy, industrial, infrastructure, mining and transportation. Among the varied products and services are tractors, engines, compressors, generators, cranes, tools, logistics, financing and remanufacturing. North America, Europe, the Middle East and Asia are the most significant geographic markets, but there are few, if any, countries around the world not served by the Machineries Industry.

### **Maritime**

Bulk-commodity carriers generate revenue through relatively stable, long-term contracts, called time charters, and short-term agreements in the highly erratic spot market. Ship construction orders pick up when the business climate is fair, but deliveries may take up to three years, a period over which the economic trade winds can shift direction.

Containerships serve several customers on a single voyage over regular liner routes.

## **Medical Instruments & Equipment**

Medical Supplies companies manufacture and distribute a broad range of items, from surgical and dental instruments to elective laser surgery equipment to orthopedic products. The two major classes of customers served are hospitals and doctors' offices.

## **Metals and Mining Companies**

Diversified Metals & Mining companies supply commodities used in products and equipment found in a wide variety of sectors, such as construction, automotive, aerospace, and telecommunications. In fact, this industry's reach is so broad that the utilization rate of metals is a key barometer for gauging the health of the global economy.

## **Motor Vehicles**

## **Natural Gas Producers**

The Diversified Natural Gas Industry is comprised of companies that produce, market, and transport natural gas. Exploration and production activities are common in this industry. A number of companies also produce crude oil. Barriers to entry in this industry are fairly high for new entrants to overcome. Exploration and production initiatives take time and require substantial capital. Large companies can benefit from economies of scale, and seasoned drillers often have the greatest operating efficiency. An industry participant can benefit from a favorable competitive position for quite a long time. Healthy cash flow is important for success. Significant funds are required for natural gas companies to pursue drilling, maintain and upgrade equipment, and complete acquisitions.

## **Natural Gas Utilities**

The Natural Gas Utility Industry includes domestic companies that provide distribution service to residential, commercial and industrial customers.

## **Oil/Gas Distribution**

The Oil/Gas Distribution Industry comprises companies that move two of the most important energy commodities, and their derivatives, from the wellhead to the ultimate consumer. These enterprises perform tasks such as the gathering and processing of gas, intrastate and interstate transport, and final delivery to the customer. A majority has no operations outside the United States. Too, most are organized as master limited partnerships, a feature that has important tax consequences.

## **Oilfield Services/Equipment Industry**

The Oilfield Services/Equipment Industry is made up of a mature set of companies, the fortunes of which are dependent on the drilling expenditures of oil and natural gas producers. Since demand for such fuels fluctuates with the economy, oilfield services stocks are considered cyclical.

Companies in this industry are of two main types: those that rent drilling rigs and those that provide the various services required to evaluate, construct, and maintain oil and gas wells. Industry margins are excellent during boom times, but can narrow supply during slow periods.

The level and direction of oil and natural gas prices are key indicators of performance for the industry.

The global rig count also tells a tale of the industry's fortunes, although its meaning continues to evolve. A rising rig count is the precursor to a better equipment-and-services pricing environment.

Companies need to offer customers a solid brand name with a good reputation, which may entail sizable capital investment.

### **Packaging & Containers**

Companies within the Packaging & Container (P&C) industry serve a wide variety of markets, but most rely on the food-and-beverage, household products, and pharmaceutical sectors for the majority of business. Offerings from the industry mainly facilitate the dispensing and protection of products. P&C producers serve a customer base that spans across the globe. Emerging markets, especially in South America and Southeast Asia, have been a particularly attractive growth venue.

Among the many examples of P&C products are pharmaceutical pumps, aerosol valves, plastic and polyethylene containers, metal cans, cardboard, glass bottles, storage and waste bags, cushioning materials, giftwraps, and steel, fiber, and plastic drums.

### **Paper & Forest Products**

Companies in the Paper & Forest Products Industry primarily operate in the paper, lumber/building supply, and timberland markets. Those serving the paper segment produce various products used in magazines, envelopes, containerboard, and food and beverage packaging. Others in the building materials category supply commercial and residential construction companies with oriented strand board, siding, engineered and composite wood items, plywood, paneling, and particleboard. Industry members focused on the timberland market have vast forest tracts in the Pacific Northwest, Southeast,

Canada, and overseas (e.g., Brazil), and manage them as valuable commodities and real estate holdings. A good number of these are structured as Real Estate Investment Trusts (REITs).

### **Petroleum (Integrated) Industry**

The Petroleum (Integrated) Industry is a mature, cyclical sector that encompasses several business lines. The typical company here conducts oil exploration and development programs, refines and markets oil, and may produce chemicals. The emphasis has long been on the "upstream" end, or exploration, since it generates the highest margins most of the time.

### **Petroleum (Producing) Industry**

The Petroleum (Producing) Industry consists of companies that explore for and produce oil and natural gas, primarily in the United States, with most of their projects being land-based. They consist of mature companies, although there are a few growth vehicles.

### **Pharmaceuticals**

The Pharmaceuticals industry is comprised of companies that produce and sell chemically and/or biologically derived remedies used to cure disease or improve a patient's health. It is considered a defensive industry, because consumers typically continue to purchase the drugs even in times of economic distress. The industry is highly competitive, being dominated by a handful of large, multi-product, international, name-brand pharmaceutical companies. That said, the group also contains many small biotech companies, mostly unprofitable, that are attempting to develop a novel drug or two. The task of a drug company is to create a drug, obtain approval to sell it, and then sell it to make a profit.

### **Power/Renewable Energy**

Companies in the Power/Renewable Energy Industry are primarily involved in the development and marketing of novel solutions for the generation and distribution of electricity. Companies herein cover a wide spectrum of underlying science and end-market applications. A good number are focused on reducing the developed world's traditional reliance on fossil fuels (i.e., oil, natural gas and coal) for power generation. This major subgroup includes solar panel and wind turbine makers, as well as operators of geothermal and municipal waste-to-energy power plants. Other manufacturers target less transformative niche solutions and enhancements to the existing electric grid. Their products include superconducting wire for power lines and fuel cells used to power wireless base stations and clean-running city buses.

The group has a relatively short history, since the adequacy and suitability of the existing power infrastructure has only really come into question over the past couple of decades.

To a degree, these companies seek to reshape the global economy. Transforming a power infrastructure, which is so deeply entrenched, carries high risk. Many alternative power companies have only recently turned profitable, as market adoption has just reached key levels and product development costs are slowly receding. Still, a good number in the power group won't become self-funding anytime soon and must, therefore, turn to the capital markets for continued financial support.

### **Precision Instruments**

The Precision Instruments Industry is a rather fragmented, cyclical sector that serves consumers and a whole host of manufacturers and industrial businesses. Diversity is certainly this group's hallmark, as the companies under our review run the gamut from small-cap providers of capital goods and/or services to various manufacturers to large entities that derive the bulk of their sales from consumer products. Precision instrument makers operate domestically and internationally. Many generate more than half of their annual sales overseas.

### **Railroads**

### **Real Estate Investment Trusts**

Real Estate Investment Trusts (REITs) were created by the United States Congress in the 1960s, giving individuals the opportunity to invest in large property businesses. There are currently more than 150 publicly traded REITs in America. Since 2001, REITs have resided in the Standard & Poor's 500 index, gaining in popularity with individual and institutional investors.

### **Steel**

The Steel Industry consists of companies that use iron ore and coal, as well as scrap, to produce carbon, semi-finished steel. Steel companies are, by nature, capital and labor intensive.

### **Stone, Clay, Glass & Concrete Products**

This major group includes establishments engaged in manufacturing flat glass and other glass products, cement, structural clay products, pottery, concrete and gypsum products, cut stone, abrasive and asbestos products, and other products from materials taken principally from the earth in the form of stone, clay, and sand. Companies include USG, Molycorp, Eagle Materials,



CEMEX, Texas Industries, Westport Innovations, Libbey, Owens-Corning, CRH, and James Hardie Industries.

### **Telecommunications Equipment Industry**

The Telecommunications Equipment Industry produces technologies and services that are used to facilitate people's communication. Major products include cell phones, chipsets, wireless and landline infrastructure equipment, digital subscriber-line (DSL) and cable modems, and networking devices, such as routers and switches. The industry's customer base is highly diversified, including multi-national corporations, telephone companies, governments, universities, institutions, commercial businesses and consumers. Though spending on telecom equipment is generally considered non-discretionary, many customers will delay plans to upgrade/expand their telecom systems or purchase products during an economic downturn.

### **Textiles (Tough Area due to Foreign Competition)**

### **Trucking**

The Trucking Industry is a cyclical sector comprised of companies that provide shipping services, using tractor-trailers, to customers, which are usually commercial businesses. Most trucking outfits own and operate the vehicles in their fleets, though some do rely on leasing. The vast majority of revenue is generated domestically, since overseas shipments require either air- or sea-based transportation. Thus, these companies have little exposure to foreign currency fluctuations. The industry tends to be a leading indicator for the overall economy. During the early stages of an economic upswing, customers begin to ship more goods in anticipation of stronger business conditions. Conversely, a decrease in trucking demand may signal the beginning of an economic slump.

### **Water Utilities**

The Water Utility Industry is made up of domestic companies responsible for the safe and timely distribution of water and other related services, such as wastewater treatment. Most water systems are local or regional, but some of the companies under our review have operations across many states. This sector is mature and capital intensive.

## **OTHER INVESTMENT SECTORS**

Advertising

Banking

Cable TV

**Coal**

**E-Commerce**

**Educational Services**

**Engineering & Construction**

**Entertainment**

**Financial Services**

**Funeral Services**

**Healthcare Information**

**Homebuilding**

**Hotel/Gaming**

**Household Products**

**Human Resources**

**IT Services**

**Information Services**

**Insurance**

**Internet**

**Medical Services**

**Office Equipment/Supplies**

**Pharmacy Services**

**Plastics**

**Property Management**

**Publishing**

**Recreation**

**Restaurant**

**Retail**

**Rubber**

**Securities Brokerage**

**Tobacco**

**Toiletries Cosmetics**

**Wireless Networking**