Strategy Snippet

Equity and Quant Strategy | United States
20 May 2015

Career risk (and how to profit from it)

Bank of America Merrill Lynch

Savita Subramanian +1 646 855 3878
Equity & Quant Strategist
MLPF&S
savita.subramanian@baml.com

Dan Suzuki, CFA +1 646 855 2827
Equity Strategist
MLPF&S
dan.suzuki@baml.com

Alex Makedon +1 646 855 5982
Quantitative Strategist
MLPF&S
alex.makedon@baml.com

Jill Carey Hall, CFA +1 646 855 3327
Equity Strategist
MLPF&S
jill.carey@baml.com

Job one: keep your job

Signs of reluctance to take career risk in the financial services industry are popping up everywhere. This is perhaps driven by the magnitude of financial losses in 2008-09, the difficulty of predicting fundamentals in a macro world, or the convergence of headwinds facing active equity investors over the last few years; but signs of career risk are evident in a host of metrics across the industry.

Corporates: manufacturing EPS, underinvesting in growth

Corporations have been hoarding cash, with one exception – they are spending on buybacks. A record number of companies are exerting this power, with two-thirds of companies taking out share count today. The efficacy of buybacks has been waning, whereas the few companies spending on growth have been generally rewarded. The trade: fade US companies buying back their shares; look for companies focused on growth via M&A, capex, R&D, etc.

The sell-side: more herded than ever

The average dispersion of EPS estimates for stocks within almost every sector is near record lows (the exception being Energy, where swings in oil prices have resulted in a spike in earnings estimate dispersion). While low estimate dispersion was once thought to be a sign of certainty, transparency and predictability of earnings, today this may spell complacency or even reluctance to deviate from guidance. The trade: look for out-of-consensus high conviction ideas.

The buy-side: hedged against every outcome

Active managers' holdings suggest that funds are neither positioned for, nor against, a cyclical recovery: funds are equal-weight cyclical vs. defensive sectors. And this year, clients have capitulated on rates: for the first time, almost as many funds are overweight Utilities as are underweight – again, no directional bet on rates. And near record low levels of volatility highlight complacency about downside risk, but record high levels of the cost of protection suggest a lack of bullish conviction. The trade: sell bond proxies, swap expensive US protection for Taiwan/KOSPI protection.

One exception – funds deviating further from the benchmark

The average active share (deviation from the benchmark) of mutual funds is near a 5-year high, suggesting high conviction on stocks. But this may be driven by career risk among consultants, whose mandates include avoiding paying fees for "closet benchmarking". Thus, funds with high active share are considered to be more attractive. But by virtue of the calculation, maintaining high active share inadvertently forces PMs into smaller names – even if a mega-cap stock looks fundamentally attractive, it is hard to be meaningfully overweight without allocating an outsized amount of assets. This has created a world where mid-caps are trading near all time premia to larger stocks, as funds have been forced into smaller names. The trade: buy mega cap big old ugly stocks – inexpensive, hard to own, and more out of favor than ever.

This report is an extract of a report of the same name published 20 May 2015.

Refer to important disclosures on page 9 to 11.

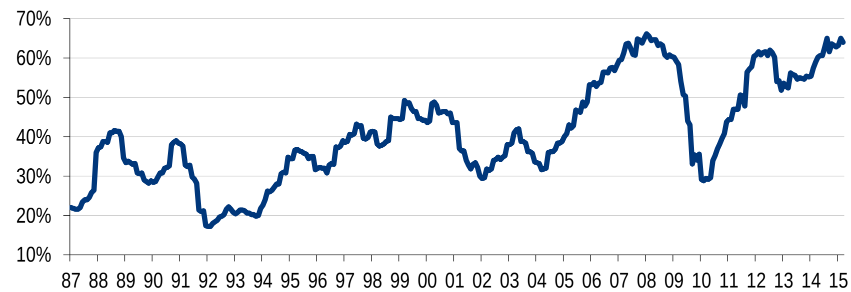
Taking advantage of career risk

Corporates: manufacturing EPS, underinvesting in growth

Buybacks at record levels; no longer consistently rewarded

The proportion of companies buying back shares is at record levels, with two-thirds of S&P 500 stocks seeing a net reduction in share count.

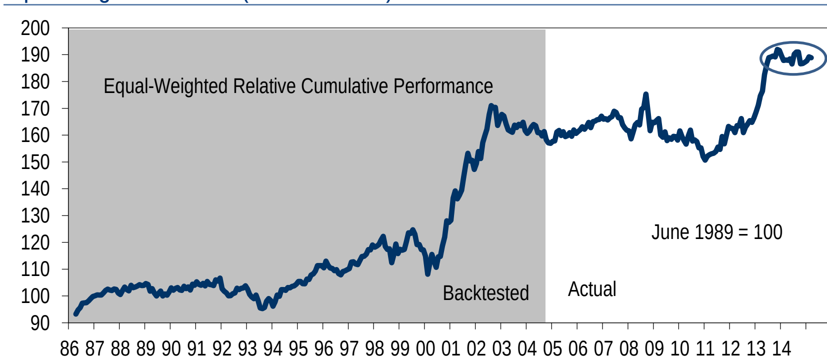
Chart 1: Percentage of S&P 500 companies buying back shares (1987-3/31/15)



Source: Compustat, BofA Merrill Lynch US Equity & US Quant Strategy

Corporate buybacks markedly outperformed during 2011-13, but since then have no longer been uniformly rewarded amid more elevated valuations and a desire for companies to invest in growth.

Chart 2: Cumulative relative performance of S&P 500 top decile by Share Repurchases vs. Equal-Weighted S&P 500 (3/31/86-3/31/15)



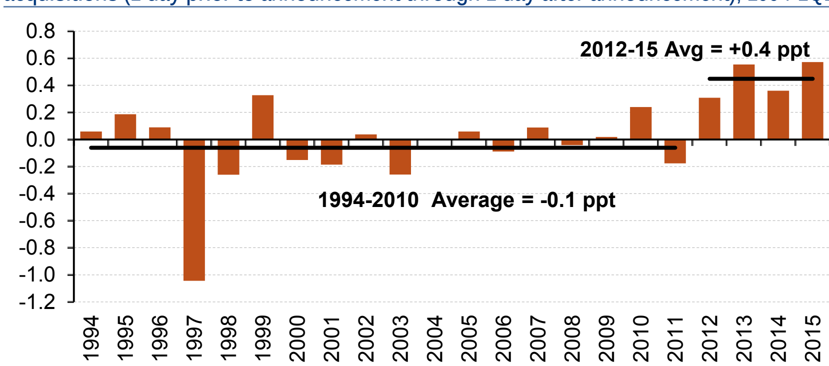
Note: the shaded area shows backtested results during the period from month-end March 1986 to month-end Dec. 2004. The unshaded portion represents actual performance since Jan. 2005. Backtesting is hypothetical in nature and reflects application of the screen prior to its introduction. It is not actual performance and is not intended to be indicative of future performance. The back-tested performance results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for all financial risks that may affect the performance of the screen going forward. See Appendix for performance data and calculation methodology.
Source: BofA Merrill Lynch US Equity & US Quant Strategy

Investing in growth has been uniformly rewarded

Acquirers have outperformed

While historically companies doing acquisitions were penalized (often for paying too much), investing in growth has recently been a rewarded attribute as companies are sitting on piles of cash.

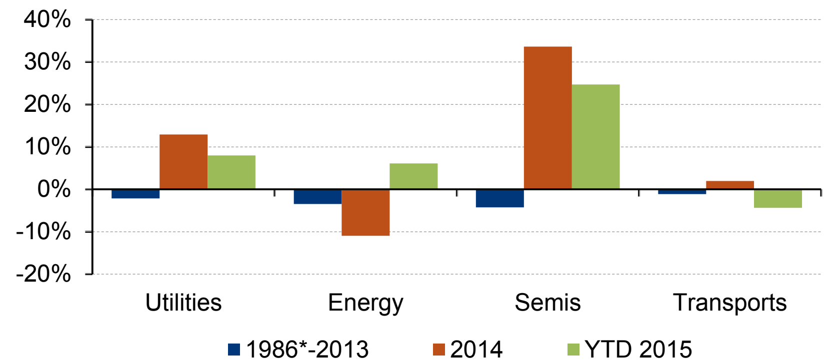
Chart 3: Average relative performance (vs. R1000) of large cap companies that made acquisitions (1 day prior to announcement through 1 day after announcement), 1994-1Q15



Source: FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

Capex spenders have outperformed
Similarly, companies in the majority of the most capex-intensive industries have recently been rewarded for spending on capex, while historically they were penalized.

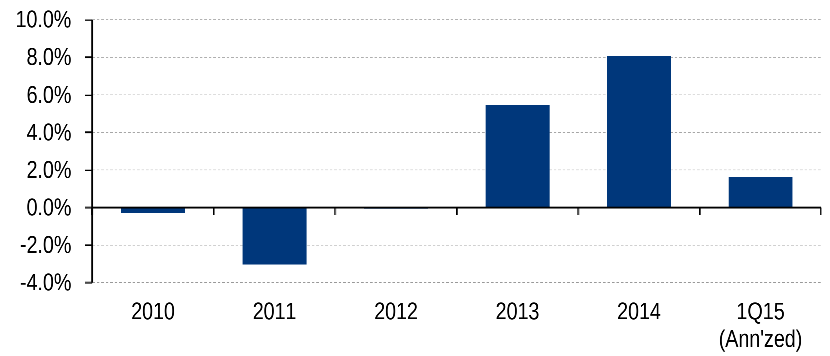
Chart 4: Relative annualized performance from 1986-2013 vs. 2014 and 1Q15 of highest vs. lowest wtd. quartiles on capex/sales within the most capex-intensive industries



*Data for Semis since 2003
Source: FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

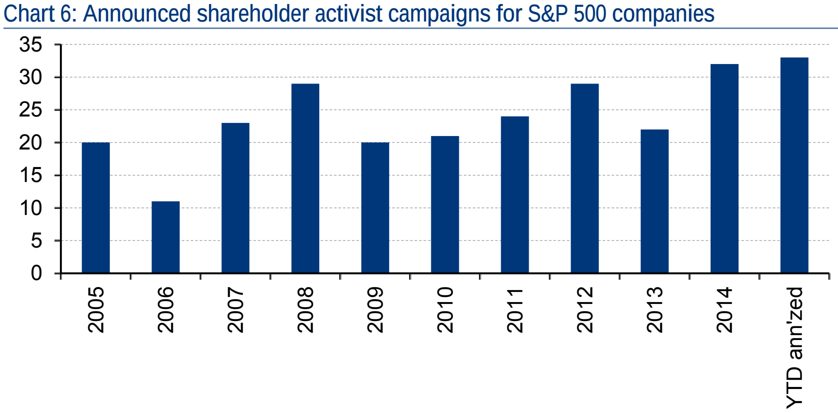
And R&D spenders have outperformed
Companies that spent on R&D have also been rewarded over the last three years.

Chart 5: Relative performance of R&D spenders vs. stocks which don't spend on R&D in the S&P 500, 2010-1Q15 annualized



Source: FactSet, BofA Merrill Lynch US Equity & US Quant Strategy

Chart 6: Announced shareholder activist campaigns for S&P 500 companies



Source: US Equity & Quant Strategy, FactSet

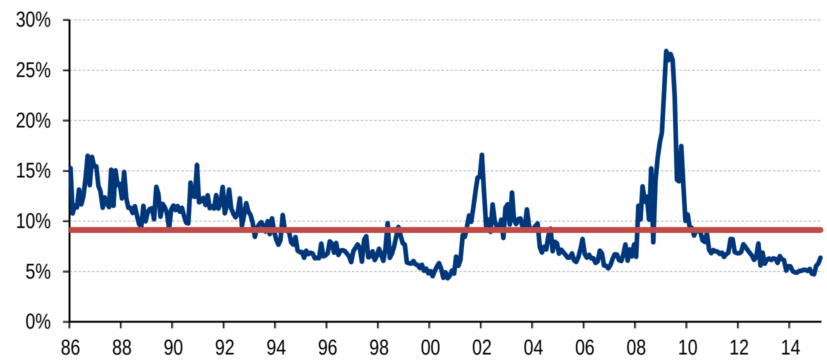
The trade

Sell companies buying back their shares, and look for companies focused on growing their business by M&A, capex, R&D etc.

More sell-side herding than ever

Analysts clustered: The dispersion of S&P 500 EPS estimates (excluding the Energy sector) is near record lows.

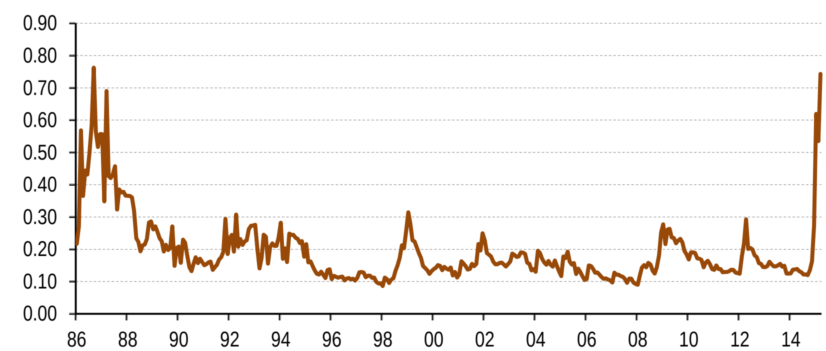
Chart 7: S&P 500 ex. Energy FY2 EPS estimate dispersion (1986-3/2015)



Source: FactSet Research Systems, BofA Merrill Lynch US Equity & US Quant Strategy

Energy is the only sector where dispersion has spiked to near an all-time high, amid the decline in oil prices.

Chart 8: EPS estimate dispersion for S&P 500 Energy sector (1986-3/2015)



Source: FactSet Research Systems, BofA Merrill Lynch US Equity & US Quant Strategy

Opportunity: out-of-consensus ideas
Stocks where our BofAML analyst has been statistically significantly above consensus have outperformed the market over time.

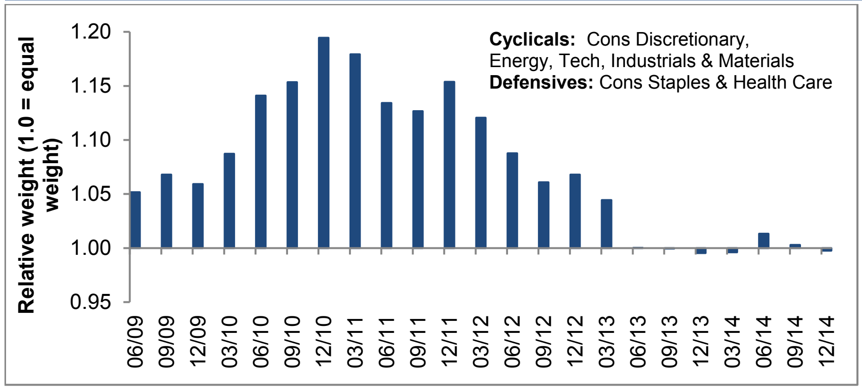
The trade: out of consensus stocks

Our Alpha Surprise Model highlights out-of-consensus high conviction ideas.

The buy side – hedged against all outcomes

Buy side is hedged: Large cap mutual fund managers' exposure to defensive vs. cyclical sectors is near the most extreme we have seen since the credit crisis, with no conviction for – or against – an improving economy.

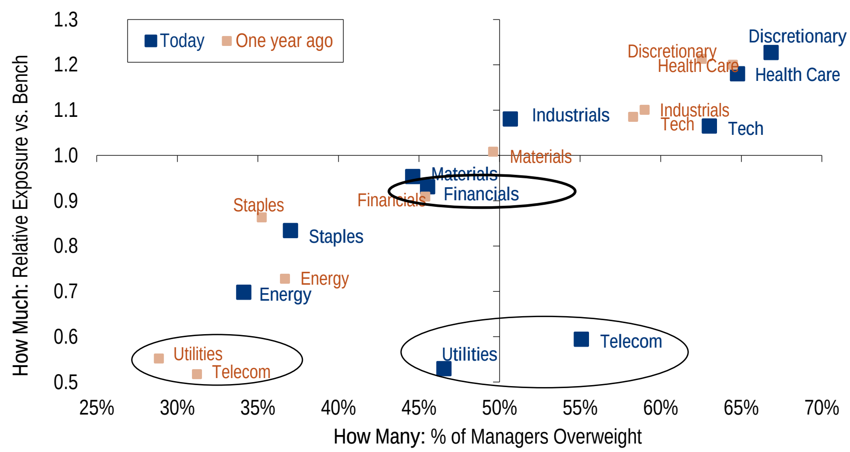
Chart 9: Large cap active managers' relative positioning in cyclical vs. defensive sectors



Source: BofA Merrill Lynch US Equity & US Quant Strategy, Lionshares

No call on rates:
While a year ago fewer than one out of three funds was overweight Utilities and Telecom, today nearly half of funds are overweight Utilities and more than half are overweight Telecom. These two sectors are typically hurt most in rising rate environments. Fund managers are also neutral on Financials, commonly considered to be a rising rate beneficiary.

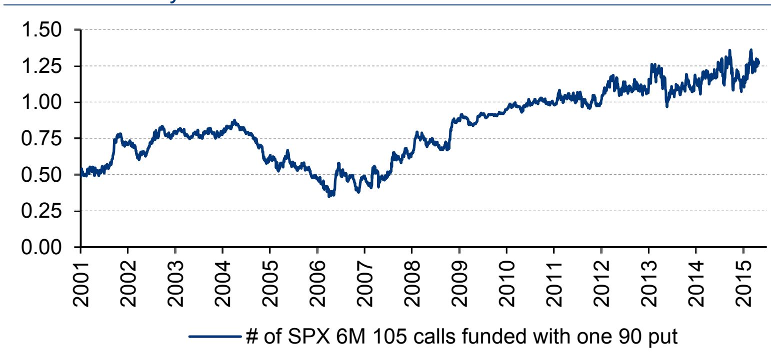
Chart 10: Large cap active managers' sector exposure today vs. one year ago



Note: How many: % of funds that have an overweight position in the sector; How much: Relative weight to the benchmark (1 = Neutral). Positioning data as of April 2015 (primarily 4Q14 holdings) vs. year-ago (primarily 4Q13) holdings.
Source: BofA Merrill Lynch US Equity & US Quant Strategy, Lionshares

No conviction on upside or downside
Overall low levels of volatility may not be a sign of bullish complacency, given that the relative cost of protection is trading near record highs.

Chart 11: Puts on the S&P 500 are very expensive: Selling 1x SPX 6m 90% put can fully finance a near 14-year record number of 6m 105% calls



Note: based on data from 1/1/01-4/29/15
Source: BofA Merrill Lynch Global Research

The trade: Swap US downside protection for Taiwan and KOSPI protection.

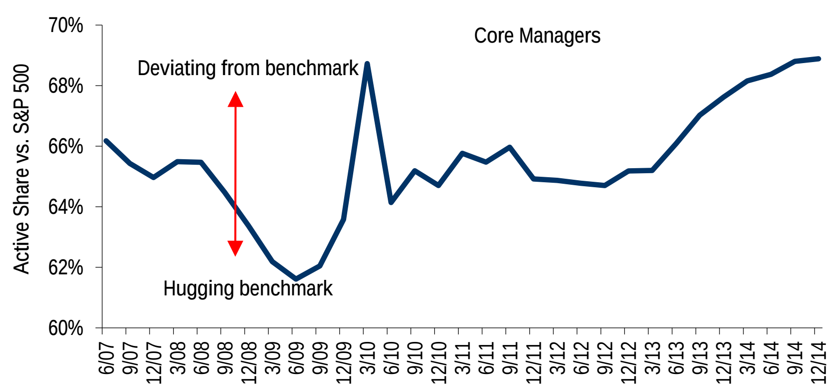
The one exception: funds are deviating further from the benchmark

The cult of active share
Consultants have honed in on active share (how different a fund is from the benchmark). Managers have thus been forced into concentrated positions in a subset of smaller, more idiosyncratic stocks to maintain high active share.

But this may be driven by career risk among consultants

The key mandate for consultants in selecting funds is to avoid paying active fees for benchmark hugging, which makes sense. This has created an environment in which funds with high active share are seen as more attractive. But by virtue of the calculation, maintaining high active share inadvertently forces fund managers into smaller names; so even if a mega cap stock looks attractive, it is hard to be meaningfully overweight without allocating an outsized amount of assets. This has created a world where mid-caps are trading at near all time premia to larger stocks.

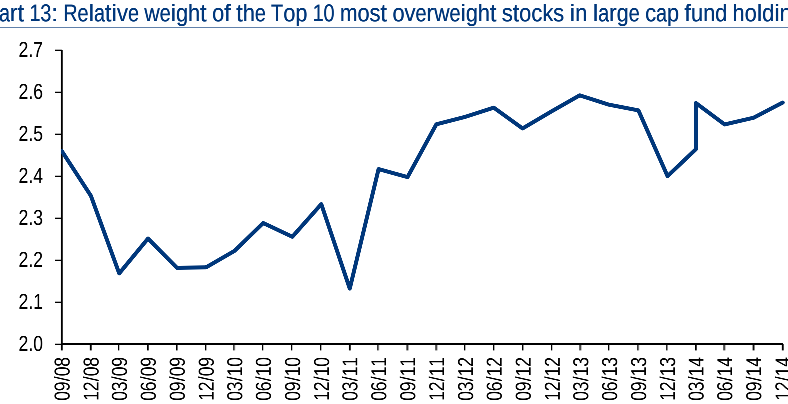
Chart 12: Active Share Ratio of Core Managers vs. S&P 500 6/07 to 12/14



Note: The **Active Share Ratio** is calculated as the sum of the absolute value of the differences of the weight of each holding in the manager's portfolio versus the weight of each holding in the benchmark index and then dividing by two. For example, if the benchmark includes only one stock, and a portfolio manager invests half of her assets in that stock and half in another stock, then the Active Share of her portfolio is 50%.
Source: BofA Merrill Lynch US Equity & US Quant Strategy, Lionshares

In tandem, active funds have extended their overweights to record levels.

Chart 13: Relative weight of the Top 10 most overweight stocks in large cap fund holdings



Source: BofA Merrill Lynch US Equity & US Quant Strategy, Lionshares

The trade

Buy mega cap big old ugly stocks –inexpensive, hard to own, and more out of favor than ever.

Appendix

Performance of quantitative strategies

Table 1: Quantitative strategy performance as of 3/31/15

							2 Yr Perf.		3 Yr Perf.		5 Yr Perf.		
Strategies (Universe based on the S&P 500)		1 M	3 M	6 M	12 M	YTD	Gross	Anlzd	Gross	Anlzd	Gross	Anlzd	Inception Date
Relative Strength (10wk/40wk)	Technical	0.9	6.6	13.6	17.0	6.6	52.4	23.5	73.4	20.1	90.5	13.8	1/31/2010
Price Returns (9-Month)	Technical	0.5	6.5	12.1	17.6	6.5	56.1	25.0	87.6	23.3	109.9	16.0	1/31/2010
High Projected 5-Yr Growth	Growth	-0.4	6.1	6.8	14.1	6.1	55.1	24.6	80.3	21.7	129.4	18.1	12/31/1988
Price Returns (12-Month)	Technical	0.1	5.7	11.5	15.6	5.7	52.6	23.5	81.4	22.0	104.3	15.4	1/31/2010
Price Returns (11-Month since 1 year ago)	Technical	0.2	5.5	9.3	13.7	5.5	47.1	21.3	74.3	20.4	89.4	13.6	1/31/2010
Upward Estimate Revisions	Growth	0.8	4.9	8.7	15.9	4.9	48.3	21.8	73.4	20.2	96.6	14.5	12/31/1988
Price Returns (12-Month plus 1-Month Reversal)	Technical	-0.1	4.8	7.2	13.0	4.8	48.9	22.0	74.3	20.3	94.0	14.2	1/31/2010
Relative Strength (Price/200-Day Moving Avg)	Technical	0.8	4.8	13.1	17.9	4.8	46.9	21.2	72.9	20.0	97.0	14.5	1/31/2010
ROC	Quality	-1.2	4.3	14.6	19.9	4.3	48.4	21.8	55.3	15.8	109.3	15.9	4/30/1997
Relative Strength (5wk/30wk)	Technical	0.2	4.1	12.5	16.6	4.1	42.3	19.3	71.5	19.7	104.5	15.4	1/31/2010
EPS Momentum	Growth	-0.2	4.0	7.4	12.4	4.0	36.7	16.9	59.2	16.8	80.8	12.6	12/31/1988
Relative Strength (30wk/75wk)	Technical	-0.6	4.0	3.1	8.4	4.0	39.0	17.9	66.1	18.4	79.3	12.4	8/31/1995
High Duration	Growth	-0.5	3.8	8.5	12.6	3.8	38.2	17.6	50.5	14.6	85.1	13.1	12/31/1988
Price Returns (3-Month)	Technical	-0.3	3.6	10.4	16.4	3.6	38.5	17.7	66.4	18.5	111.7	16.2	1/31/2010
ROE (5-Yr Average)	Quality	-1.2	3.5	8.2	12.7	3.5	38.0	17.5	52.4	15.1	100.6	14.9	4/30/1997
Price Returns (12-Month plus 1-Month)	Technical	-0.4	3.2	9.9	12.0	3.2	32.7	15.2	66.4	18.5	91.0	13.8	1/31/2010
Analyst Coverage Neglect	Miscellaneous	-0.6	3.0	11.6	14.0	3.0	42.8	19.5	65.0	18.2	99.5	14.8	6/30/1989
Forecast Positive Earnings Surprise	Growth	-0.6	2.5	8.2	9.3	2.5	37.1	17.1	63.4	17.8	103.4	15.3	12/31/1988
ROE (5-Yr Avg. Adj. by Debt)	Quality	-1.7	2.5	7.5	15.8	2.5	43.5	19.8	56.1	16.0	95.1	14.3	4/30/1997
ROE (1-Yr Average)	Quality	-1.0	2.5	11.8	15.6	2.5	48.1	21.7	58.5	16.6	102.7	15.2	4/30/1997
ROA	Quality	-1.7	2.5	11.9	17.7	2.5	46.8	21.2	54.7	15.7	107.5	15.7	4/30/1997
Share Repurchase	Corp Cash Deployment	-1.3	2.3	5.6	11.4	2.3	47.1	21.3	83.3	22.4	129.3	18.1	12/31/2004
DDM Valuation	Value	-0.2	2.1	6.7	12.2	2.1	41.6	19.0	69.3	19.2	113.9	16.4	12/31/1988
S&P 500 Equal Weighted (Total Return)	Benchmark	-0.9	1.9	7.9	13.1	1.9	41.4	18.9	66.1	18.4	112.1	16.2	
Low Price to Free Cash Flow	Value	-2.1	1.9	6.8	15.6	1.9	51.3	23.0	76.8	20.9	124.9	17.6	7/30/2003
Low Price to Sales	Value	-0.4	1.5	8.7	15.1	1.5	56.4	25.1	96.9	25.4	138.1	19.0	12/31/1988
S&P 500 Equal Weighted (Price Return)	Benchmark	-1.1	1.4	6.8	10.9	1.4	36.0	16.6	56.3	16.0	91.8	13.9	
High Free Cash Flow to EV	Value	-3.2	1.4	8.1	15.7	1.4	61.9	27.2	81.5	22.0			7/31/2010
ROE (1-Yr Avg. Adj. by Debt)	Quality	-1.6	1.4	9.1	17.5	1.4	45.3	20.5	58.0	16.5	108.0	15.8	4/30/1997
S&P 500 Index (Price Return)	Benchmark	-1.7	0.4	4.9	10.4	0.4	31.8	14.8	46.8	13.7	76.8	12.1	
Low PE to GROWTH	GARP	-0.9	0.4	2.0	3.9	0.4	30.8	14.4	47.7	13.9	83.1	12.9	12/30/1988
Small Size	Miscellaneous	-1.2	0.3	1.2	6.3	0.3	42.7	19.5	66.6	18.5	95.9	14.4	12/31/1988
Forecast Negative Earnings Surprise	Growth (Negative)	-1.3	0.3	6.5	10.8	0.3	45.5	20.6	53.4	15.3	88.2	13.5	12/31/1988
High Variability of EPS	Risk	-1.3	0.2	4.4	6.5	0.2	34.4	15.9	50.2	14.5	73.7	11.7	12/31/1988
Short Interest	Miscellaneous	-1.1	-0.1	3.9	4.2	-0.1							10/31/2013
High Beta	Risk	-2.3	-0.8	-2.4	-1.1	-0.8	33.4	15.5	45.3	13.3	57.8	9.6	12/31/1988
Dividend Yield (Total Return)	Corp Cash Deployment	-2.9	-0.8	5.0	13.7	-0.8	33.0	15.3	61.6	17.3	127.4	17.9	12/31/1988
High Dividend Growth (Total Return)	Corp Cash Deployment	-1.4	-0.8	0.8	6.2	-0.8	32.9	15.3	57.0	16.2	121.1	17.2	12/31/2004
High EPS Estimate Dispersion	Risk	-3.7	-1.0	-13.9	-8.7	-1.0	15.7	7.6	40.6	12.0	46.8	8.0	12/31/1988
Low Price to Cash Flow	Value	-3.1	-1.2	-3.8	1.4	-1.2	29.1	13.6	47.8	13.9	77.1	12.1	12/31/1988
Low EV/EBITDA	Value	-3.8	-1.2	-8.7	-4.6	-1.2	22.3	10.6	42.6	12.6	76.8	12.1	9/30/2001
High Dividend Growth (Price Return)	Corp Cash Deployment	-1.6	-1.4	-0.5	3.8	-1.4	27.4	12.9	46.9	13.7	95.9	14.4	12/31/2004
Earnings Yield	Value	-1.7	-1.4	0.6	4.2	-1.4	35.3	16.3	55.2	15.8	84.0	13.0	12/31/1988
Dividend Yield (Price Return)	Corp Cash Deployment	-3.3	-1.9	2.7	8.8	-1.9	21.4	10.2	40.1	11.9	77.6	12.2	12/31/1988
High Foreign Exposure	Miscellaneous	-4.1	-2.0	0.4	1.6	-2.0	27.4	12.9	29.2	8.9	59.8	9.8	12/31/1988
Low Price	Risk	-4.2	-3.0	-1.8	1.2	-3.0	37.1	17.1	64.0	17.9	74.2	11.7	12/31/1988
Low Price to Book Value	Value	-2.6	-3.0	-6.1	-2.9	-3.0	30.4	14.2	55.2	15.8	76.4	12.0	12/31/1988
Most Active	Technical	-3.8	-3.0	-0.2	5.4	-3.0	34.3	15.9	53.1	15.3	70.9	11.3	8/31/2003
Institutional Neglect	Miscellaneous	-2.5	-3.2	2.1	7.3	-3.2	24.9	11.7	41.1	12.2	67.5	10.9	12/31/1988
Low EPS Torpedo	Growth (Negative)	-2.9	-3.3	-5.1	-5.4	-3.3	21.5	10.2	31.6	9.6	67.2	10.8	12/31/1988
Forward Earnings Yield	Value	-2.7	-3.5	-2.6	1.8	-3.5	35.5	16.4	58.2	16.5	77.1	12.1	12/31/1988

Source: BofA Merrill Lynch US Equity & Quant Strategy; Please see Quantitative Profiles: A PM's guide to stock picking 13 April 2015 for a description of our strategies and the performance calculation methodology.

The performance does not reflect transaction costs or tax withholdings or any applicable advisory fees. Had these costs been reflected, the performance would have been lower. Performance is calculated on the basis of price return unless noted.

Total return performance calculations assume that dividends paid on securities in a portfolio are deposited in a cash account on the ex-dividend date, and are not reinvested.

Past performance should not and cannot be viewed as an indicator of future performance. A complete performance record is available upon request.

Advances & declines for quantitative strategies

Table 2: Advances and declines for quantitative strategies as of 3/31/15

	1M		3M		6M		12M		YTD		2Yr		3Yr		5Yr	
Quantitative Strategies	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.	Adv.	Dec.
Relative Strength (10wk/40wk)	28	22	90	60	188	112	350	247	90	60	714	479	1077	715	1736	1256
Price Returns (9-Month)	27	23	93	57	188	112	357	241	93	57	733	459	1103	686	1765	1222
High Projected 5-Yr Growth	22	29	87	65	173	129	357	251	87	65	744	475	1103	720	1776	1260
Price Returns (12-Month)	24	26	88	62	185	115	349	248	88	62	727	467	1088	705	1742	1248
Price Returns (11-Month since 1 year ago)	25	25	93	57	185	115	352	244	93	57	727	468	1092	702	1735	1256
Upward Estimate Revisions	28	22	80	70	178	122	350	250	80	70	733	466	1105	691	1744	1249
Price Returns (12-Month plus 1-Month Reversal)	24	26	92	58	181	119	354	244	92	58	733	465	1096	700	1753	1242
Relative Strength (Price/200-Day Moving Avg)	29	21	90	60	193	107	359	239	90	60	723	470	1083	706	1753	1236
ROC	20	30	81	69	191	109	365	235	81	69	739	460	1080	718	1755	1243
Relative Strength (5wk/30wk)	26	24	87	63	187	113	347	250	87	63	703	490	1072	716	1747	1238
EPS Momentum	26	24	85	65	176	124	348	250	85	65	713	485	1069	727	1704	1290
Relative Strength (30wk/75wk)	24	26	88	62	169	131	339	257	88	62	711	485	1071	725	1716	1276
High Duration	25	25	85	65	180	120	349	251	85	65	714	485	1062	736	1718	1280
Price Returns (3-Month)	24	26	80	70	175	125	349	251	80	70	689	507	1044	748	1742	1248
ROE (5-Yr Average)	16	34	72	78	163	137	336	262	72	78	710	486	1057	738	1737	1256
Price Returns (12-Month plus 1-Month)	22	28	78	72	177	123	335	264	78	72	689	505	1071	722	1742	1249
Analyst Coverage Neglect	20	33	76	74	186	112	350	235	76	74	692	422	1011	627	1596	1164
Forecast Positive Earnings Surprise	36	40	125	101	292	180	547	390	125	101	1126	718	1637	1040	2459	1765
ROE (5-Yr Avg. Adj. by Debt)	16	34	77	73	174	126	357	242	77	73	729	470	1082	717	1749	1249
ROE (1-Yr Average)	18	32	75	75	182	118	355	243	75	75	732	465	1085	710	1748	1246
ROA	14	36	71	79	176	124	347	253	71	79	715	485	1054	746	1721	1279
Share Repurchase	22	28	82	68	182	118	361	239	82	68	754	446	1137	663	1806	1192
DDM Valuation	21	24	85	70	195	122	414	269	85	70	865	546	1283	818	2141	1446
Low Price to Free Cash Flow	19	31	75	75	168	131	347	250	75	75	746	450	1112	682	1769	1220
Low Price to Sales	26	24	81	69	173	127	354	245	81	69	736	461	1095	698	1725	1264
High Free Cash Flow to EV	13	29	62	64	148	103	299	202	62	64	640	356	929	557	1507	1024
ROE (1-Yr Avg. Adj. by Debt)	16	34	74	76	175	125	354	246	74	76	728	472	1090	710	1764	1234
Low PE to GROWTH	18	32	73	77	158	142	329	269	73	77	717	480	1064	731	1690	1302
Small Size	22	28	74	75	158	141	322	274	74	75	698	495	1039	752	1645	1345
Forecast Negative Earnings Surprise	24	40	99	109	219	179	431	337	99	109	968	617	1420	956	2271	1641
High Variability of EPS	31	36	99	97	221	161	429	319	99	97	923	581	1386	889	2208	1604
Short Interest	18	32	67	83	158	142	311	286	67	83	629	507	994	737	1611	1227
High Beta	18	33	71	82	156	153	321	297	71	82	720	505	1066	765	1678	1360
Dividend Yield (Total Return)	15	35	66	84	170	130	352	246	66	84	728	469	1125	671	1873	1119
High Dividend Growth (Total Return)	22	28	75	75	159	141	341	258	75	75	740	458	1111	685	1806	1187
High EPS Estimate Dispersion	19	28	70	70	110	141	229	236	70	70	509	428	857	675	1522	1329
Low Price to Cash Flow	18	32	70	79	144	155	321	277	70	79	687	508	1030	759	1657	1327
Low EV/EBITDA	16	34	67	82	130	169	308	289	67	82	683	512	1034	760	1673	1319
High Dividend Growth (Price Return)	21	29	73	77	155	145	332	267	73	77	726	472	1094	704	1778	1217
Earnings Yield	23	27	76	74	168	131	341	257	76	74	746	451	1112	682	1756	1236
Dividend Yield (Price Return)	12	38	62	88	162	138	337	261	62	88	690	507	1067	728	1770	1218
High Foreign Exposure	7	43	62	88	147	152	316	281	62	88	692	504	1027	767	1673	1319
Low Price	12	38	60	89	144	155	315	278	60	89	693	499	1032	754	1631	1350
Low Price to Book Value	19	31	69	81	155	146	330	272	69	81	746	460	1116	695	1734	1285
Most Active	10	40	60	90	153	146	333	265	60	90	712	485	1065	727	1690	1297
Institutional Neglect	8	42	58	92	157	142	323	275	58	92	695	501	1070	723	1739	1255
Low EPS Torpedo	17	33	64	85	149	150	305	293	64	85	675	522	1006	787	1644	1347
Forward Earnings Yield	18	32	67	83	151	148	326	272	67	83	731	465	1085	709	1681	1307

Source: BofA Merrill Lynch US Equity & US Quant Strategy

Important Disclosures

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch Comment referencing the stock.

BofA Merrill Lynch Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

Other Important Disclosures

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

"BofA Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report.
"BofA Merrill Lynch" and "Merrill Lynch" are each global brands for BofA Merrill Lynch Global Research.

Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): OOO Merrill Lynch Securities, Moscow; Merrill Lynch (Turkey I.B.): Merrill Lynch Yatirim Bank A.S.; Merrill Lynch (Turkey Broker): Merrill Lynch Menkul Değerler A.Ş.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zurich rep. office): MLPF&S Incorporated Zurich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A.; Merrill Lynch KSA Company, Merrill Lynch Kingdom of Saudi Arabia Company.

This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International and Bank of America Merrill Lynch International Limited, which are authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority - details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Bank of America N.A., Australian Branch (ARBN 064 874 531), AFS License 412901 (BANA Australia) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this report in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of BANA Australia, neither MLEA nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil and its local distribution is made by Bank of America Merrill Lynch Banco Múltiplo S.A. in accordance with applicable regulations. Merrill Lynch (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates. Hong Kong recipients of this research report should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities. Singapore recipients of this research report should contact Merrill Lynch International Bank Limited (Merchant Bank) and/or Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this research report.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Merrill Lynch.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright and General Information regarding Research Reports:

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.