Top Ten Picks For 2016

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Stock volatility will continue in 2016. The markets will wrestle with two macroeconomic issues: the pace at which the Federal Reserve will raise interest rates; and China's economic slowdown. Investors will continue to seek safety in the US dollar. The party will come to an abrupt end for those particular countries and companies that took on excessive leverage during this low rate environment on the prospects of a faster growing China.

Companies within the S&P 500 are near record profit margins, yet trade at a price-to-earnings (P/E) multiple of 16.5x 2016 consensus estimates, around its 50 year average. With earnings growth under pressure and a Fed looking to raise rates, it is hard to see how p/e multiples will expand to push stocks higher.

Despite the concerns, interest rates remain relatively low, inflation benign, and with the exception of the energy and basic materials sector, balance sheets of corporate America are generally in good shape. Stock selection remains critical. ***Buy the dips in 2016!***

Hide in High Quality Mega Caps

Stick with those companies that have a strong balance sheet, can offer total return through a growing dividend, and have a business model that generates strong cash flow.

We recommend **Walmart (WMT).** This $190 billion market cap company reset near term earnings projections in 2015. However, with lower gasoline prices, and an expanding online presence, the Walmart shoppers of this stock should be rewarded over the long run. Trading at 14.5x 2016 p/e and yielding 3.3%, WMT announced that it is buying back $20 billion of stock over a two year period.

There are only four companies in the world with a AAA rated balance sheet and **Johnson & Johnson (JNJ**) is one of them. The company generates significant cash flow, is a titan in all of its business units, offers a 2.9% dividend yield, a dividend which has grown 10% annually over the past 10 years, and generates a 5% free cash flow yield. JNJ will prove to be a beacon of safety during those periods of excessive volatility in 2016.

Financials: The Cheapest Sector with the Best Fundamentals

Annual scrutiny from the Fed has pushed capital ratios on bank balance sheets to their highest level ever. The quality of loans issued are stronger, and charge offs are lower. Rising interest rates will help the banks earn a higher spread on what interest rate they charge borrowers versus the interest rate they pay savers, thus helping profitability.

Given the improving fundamentals, we recommend **Citigroup (C).** Post the financial crisis, Citi continues to improve its loan portfolio, has sold off nonperforming US and international assets, and has passed the Fed's stress test this year. At current valuation, Citi is trading at a 10% discount to its tangible book value. Citi is finally in a positon to return cash to shareholders.

We like **MetLife (MET)**. Life insurance stocks are a prime beneficiary of a rising interest rate environment, as they can earn a higher return on their investments. MET is one of the largest life insurers in the world and has huge efficiencies and scale. The company is trading at a discount to its book value and currently offers investors a 2.9% dividend yield. The company also recently announced they have expanded their share repurchase program to buy up to $1 billion of its own stock over the next year.

The Internet of Things has Begun

The phrase "Internet of Things" is the idea that all devices can access the internet. The introduction of IWatch has brought more attention to the wearable technology market. E-readers and tablets are now ubiquitous. Cars are now "mobile" internet devices. Medical devices are able to track data and communicate with other devices more effectively. The next wave of the internet revolution is upon us.

Investors can participate in this trend through **Flextronics International (FLEX).** FLEX is a $6.1 billion market cap supply chain solutions provider. FLEX manufactures devices and products at a low cost. That company looking to produce the latest and greatest gadget will have to go through a company like FLEX to bring it to market. Valuation is very compelling at 9x 2016 price-to-earnings multiple. No debt is due for several years, and the company has bought back 10% of its stock each year for the past five years. The industry is very concentrated, and the barriers to entry are high. A business model like FLEX is equivalent to the person selling hard hats and shovels to the speculators digging for gold in 1849.

Special Situations

Although it is late in the auto cycle to recommend a car manufacturer, **Ford (F)** is quite attractive. The company has rolled out the new F-150 truck, made of aluminum, making its fuel economy, in an already cheap gas price market, attractive. A strong housing and job market is a good environment for the F-150 to sell into. The F-Series is also 30% of Ford's sales and its highest profit margin product. The stock is currently trading at 7.3x 2016 p/e, and offers a 4.3% dividend yield. Excluding the finance division, Ford's balance sheet is strong, having more cash than debt.

Mylan Labs (MYL) had a very dramatic 2015. An M&A soap opera emerged among Mylan, Perrigo (PRGO), and Teva Pharmaceuticals (TEVA). MYL tried to buy PRGO. Then TEVA made an offer to buy MYL. Each targeted company thought the offer prices were too low. TEVA then began a hostile takeover of MYL and accumulated 2% of the shares outstanding on the open market, only to turn around and buy the generics business of Allergan. Somewhere, investors thought MYL ended the worst off. However, MYL continues to experience solid growth in its Epipen product, and possesses a strong generics and specialty pharma business. Trading at 10x 2016 P/E the company recently announced a $1 billion share repurchase program, believing that despite the M&A drama, the most attractive acquisition right now is their own stock.

Got Yield?

In today's market, investors can find high dividends in lowly places. **Seagate Technology (STX)** is the perfect example. STX provides hard disk storage for data centers and the personal computer market. The PC market is shrinking, but HDD storage in data centers is significantly cheaper compared to flash storage, that STX will be competitive for years and the business will remain a cash cow. Since 2011 the company raised its dividend from $.18 per share to $2.16 per share. Currently the stock yields 7%. Given the amount of free cash flow that the company generates, the dividend will be safe and will continue to grow for years.

Potash Corp of Saskatchewan (POT) controls 20% of the world's fertilizer market. The company is one of the lowest cost producers of fertilizer and has 80 years of production. The stock, along with all commodity based companies, has sold off hard on the back of a slowing Chinese and global economy. However, unlike copper or steel, fertilizer needs to be replaced. As long as the global population grows the need for fertilizer will continue. POT is trading at 8x 2016 p/e and offers an 8% dividend yield.

Don't Fall Asleep on Telecom

AT&T (T), along with Verizon, dominates the US wireless industry. Competitors are trying to wage a price war, but in an age where the quality of the network is crucial, AT&T and Verizon are leaps and bounds ahead of the industry. AT&T trades at a discount to Verizon on a p/e basis, and offers a higher yield, at 5.5%. With the DirecTV acquisition completed, AT&T can offer new products and expand in Latin America, where DTV had a strong presence.

2016 Investment Picks

Investment	Symbol	Sector	12.10.15	Yield

				%
Potash Corp	POT	Basic Materials	$17.98	8.51%
Seagate	STX	Technology	$36.22	7.11%
Flextronics	FLEX	Technology	$10.80	0.0%
Walmart	WMT	Consumer Defensive	$59.56	3.24%
Citigroup	C	Financials	$52.65	0.37%
Mylan Labs	MYL	Healthcare	$52.93	0.0%
Ford	F	Consumer Cyclical	$13.96	4.29%
Johnson & Johnson	JNJ	Healthcare	$102.64	2.93%
MetLife	MET	Financials	$48.87	3.05%
AT&T	T	Telecom	$33.67	5.55%
Average Yield				**3.05%**
S&P500			$2,052	1.98%
Dow			17,575	2.28%