Picks for 2016's Back Nine

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June 6, 2016

Despite it being the eighth year of an historic bull market, plenty of headwinds confront investors. At the top is corporate earnings: We have just seen the fifth straight quarter of year over year declines. Lower earnings make stocks more expensive, pressuring prices.

Meanwhile, the Federal Reserve insists that its first step to remove the punch bowl and normalize interest rates, taken in December, will be followed up by one or two rate hikes before yearend. Higher rates are a valuation negative, although not necessarily a recession trigger.

Overseas economies continue to flounder, with Japan and Europe struggling to stay out of recession. China's economy is clearly slowing, although precise figures are wanting. On the plus side monetary authorities continue to press for monetary easing, and some 10 trillion Dollars of the world's sovereign debt has negative yields.

A near term concern is the possible UK vote to leave the European Union, a/k/a the Brexit. Analysts are divided on the implications: Is it a country specific problem, or would a vote for separation cast a pall over world trade and prosperity?

Nevertheless, with the yield on the 10 year Treasury at 1.71%, investors will continue to scour the equity market for superior opportunities. Below are 10 we believe offer long term upside.

Nestle (NSRGY): Swiss based Nestle is the world's largest purveyor of snacks and drinks, boasting market leading brands like Nestle, Nescafe, Perrier, Kit Kat and Pure Life, plus a 23% stake in French cosmetics firm L'Oreal. The breadth of its offering and markets reduces risk. Rapidly growing market penetration of emerging economies offers above average growth opportunities. The dividend is healthy, resulting from a double digit payout increase over the last decade. Any break in the Dollar's strength should make more valuable Nestle's cash flow. Headwinds include consumers' renewed focus on health and wellness, demand for local sourcing, and general shunning of frozen foods.

Allergan (AGN): One of fastest growing companies on the planet, this specialty pharma player boasts a bevy of biosimilars and other specialty drugs, headlined by the world's best known drug, Botox. It's in the process of exiting its generic business to Teva, which will give it $30 billion net cash.

Although it pays no dividend, the valuation appears attractive. Last November, the world's biggest pharma, Pfizer, agreed to buy each Allergan share for Pfizer shares worth $352. When the deal aborted, Allergan's stock price plummeted. The current price allows you to buy Allergan at a near 30% discount to Pfizer's appraisal. Big name investors like Carl Icahn are also piling into the stock.

Valeant (VRX): Hedge fund darling Valeant has had a stiff comeuppance, as accounting irregularities and questionable transactions with one of its affiliates triggered an 81% selloff in the stock. We still think the company has a world class business that can now be bought on the cheap.

It boasts a mix of proprietary and generics, with no one product representing more than 11% of sales. It eschews expensive and risky research and development, while also minimizing exposure to the uncertainties of the Medicare reimbursement market. Recently acquired eye care maker Bausch & Lomb alone may be worth more than Valeant's current quote.

Barclays (BCS): Euro banking has not been a fertile area for investors in the last few years, as weak economies, heightened capital requirements, regulatory scrutiny, plus negative interest rates have pummeled these businesses. UK based businesses also reflect concerns over the Brexit.

However, Barclays remains as one of the best banking brands in the UK, and indeed has operations worldwide. The crown jewel is its credit card business, the UK's market leader, earning 20% returns on equity. Barclays investment banking business has lagged, but the current quote means the stock trades at just half of book value.

Aberdeen Latin America Equity (LAQ): The sheen is off regions south of the Rio Grande, as economies have been weighed down by weak commodity prices, a softening China, a major trading party, and political turmoil, most notably in Venezuela and Brazil.

However, the demographics of Latin America suggest high growth rates ahead. Its heavy dependence on commodities has always been a millstone around its neck; raw material prices have surged this year, suggesting better times ahead.

Much of the negativity has been priced in. The Aberdeen Latin America Equity fund is an attractive way to obtain exposure because it boasts a well-designed, professionally managed portfolio. Take advantage, too, of this closed end fund's near 13% discount to net asset value.

Seagate (STX): Seagate, together with Western Digital, enjoys a duopoly in the hard drive market for personal computers (PCs) and data centers. It is also a leader in the storage market, competing with Western Digital and Toshiba.

The moat around its business derives from its scale and thus ability to invest constantly in technological advances. Although the PC market is shrinking, hard drive storage is cheap relative to competition such as flash storage. Seagate is a champion on returning cash to shareholders via its dividend; the yield is now at 10%+, and it's increased the dividend 23% annually over the last decade.

Potash (POT): Commodity producers have been under pressure the last few years due to weak global economies, a downturn in demand from the world's second largest economy, China, plus a strong Dollar triggering deflation. However, commodities are out performing stocks this year for the first time in the last nine, capped by an 18% surge in March, April, and May.

Potash is not just any commodity producer, as it's the world leader in fertilizer production. As the world's taste buds gravitate to meat, the demand for grain to feed livestock will increase. Potash is attractively valued, priced at just half its 52 week high, boasting a 6% dividend and trading at less than 13 times earnings.

Volkswagen (VLKAY): The diesel emissions scandal has laid this company low, but too low in our view, plus overlooks its non VW lineup. Admittedly, for the next several months headline risk remains but much of that is priced in. For example, its revenues make it neck and neck with Toyota as the world's largest vehicle maker, but the market capitalization is less than half Toyota's.

VW is conservatively financed, providing it with great flexibility, plus its global and product diversity, from entry level models to super luxury, offer it unusual stability.

Its non VW lineup is impressive, including Audi, Porsche, Bentley, Bugatti, Lamborghini, SEAT, Skoda, MAN, and Scania, in addition to Volkswagen. The value of just Audi and Porsche as a standalone company may be greater than that of VW today. VW's dividend yield is 3.5%, and the payout has been hiked at a 20% annual rate for the last 10 years.

Bed Bath & Beyond (BBBY): One of the country's leading retailers, its non-discretionary products like linen, sheets, towels, and cookware give it some resiliency against economic volatility. Leadership in gifts registries for baby, bridal, and gifts help insure customer loyalty.

While its 1000+ flagship Bed Bath stores already have well penetrated all 50 states, growth is poised to come from new store formats like buybuy Baby, Harmon and Cost Plus World Market, plus international forays.

Although Amazon is a threat to all brick and mortar retailers, Bed Bath's omnichannel approach is well respected, and its web and mobile operations gaining traction. The stock is attractively valued, at less than 9 times earnings, a significant discount to the market, the industry, and its history.

BP (BP): One of the world's leading integrated energy companies, technically London based but with more Stateside assets than Exxon. Its US refinery operations are profitable standouts.

The company remains extremely leveraged to crude. A gradual drift up in fossil fuels prices, plus continued cost cutting will provide a tail wind to this stock. The company is committed to maintaining its dividend; the yield is 7.5%, and the payout has grown 23% annually over the last five years. Some sort of merger activity with another major player can't be ruled out.

In sum, continued low interest rates will maintain interest in equity markets. With earnings growth under pressure amid a strong Dollar, still low interest rates, and economic weakness overseas, selectivity is important.

Second Half 2016 Investment Picks

Investment	Symbol	Sector	6.2.16	Yield %
Nestle	NSRGY	Consumer Defensive	$75.28	3.1%
Allergan	AGN	Healthcare	$246.96	0.0%
Valeant	VRX	Healthcare	$28.87	0.0%
Barclays	BCS	Financial Services	$10.51	3.6%
Ab'deen Lat Am Eq	LAQ	Foreign Closed End	$18.38	3.4%
Seagate	STX	Technology	$23.64	10.7%
Potash	POT	Materials	$16.78	6.0%
Volkswagen	VLKAY	Consumer Cyclical	$30.75	2.6%
Bed Bath	BBBY	Consumer Cyclical	$44.45	1.1%
BP	BP	Energy	$31.88	7.5%
Average Yield				**3.8%**
S&P500			2,099	2.2%
Dow			17,807	2.6%