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Stocks to Fill Your Appetite

Well, most companies that reported last week beat expectations and while big caps rose, NASDAQ actually declined. Barring the European crisis albatross, it seems as if sentiment continues to edge higher. More barometer firms such as Amazon and TI are due to release results this week and Amazon in particular should give us insight heading into the holiday season. Speaking of which, there is a bit of an overlooked sector that could prove to fill your equities appetite this holiday season.

I have always been a fan of the casual dining and fast casual dining segments. Following them provides keen insight into styles, behaviors, how and how much consumers are allocating in their consumer discretionary budgets.

Truth be told, these stocks haven’t exactly set the house on fire as a group. A few, however, just dominate.

For example, Chipotle Mexican Grill (NYSE:CMG) is just plain killing it. This fast-casual chain is a $300+ stock with a 55 (ttm) P/E and is trading 5x 2011 Street sales estimates. Business is brisk and they generate unreal profit margins. The food is not exactly costly and the operation is similar to Subway, albeit with fewer food choices, thus maximizing margins.

That said, I would not feel comfortable owning such a high valuation stock.

Panera Bread (NASDAQ PNRA) on the other hand, is dominant in its segment has slightly lower margins and sales growth, but half the valuation.

There are a few others in the midcap and small cap categories (Darden-NYSE-DRI and Red Robin NASDAQ-RRGB) that offer good entry points but some risk. But if the holiday season has some legs, these stocks may be beneficiaries as well, during this, a seasonally difficult quarter.

Red Robin has surprised in recent quarters after a bad 3Q10. The current EPS estimate range is pretty broad and there has been an incremental increase in the number of shares short. Nonetheless, when it has surprised on the upside historically, the stock has had a good run.

Darden is a bellwether and one of the giants of the space. Frankly, with a low P/E (under 14) and a nice dividend yield (3.7%) it is a steady grower that is about as solid a play as you will get in the space.

While it may seem like a contrarian maneuver to enter into this space, it could prove to be financially rewarding. And tasty.

Core and Satellite

Lately, I have been getting a ton of emails from subscribers asking opinions about certain stocks and strategies. What I have been surprised to see is that in many cases, there isn't a great deal of diversification in a lot of portfolios.

When I was managing small cap money a few years back, as CIO I designed ground-breaking ETF products and portfolios that garnered quite a bit of press for our firm in *The Wall Street Journal* and *Business Week,* among others.

An offshoot of some of the strategies we employed is based on a simple core and satellite approach. Many small cap and micro cap investors have the satellite piece down but have forgotten about the core portion.

The idea is simple. Invest the bulk of one's equity investment in high-quality, less volatile instruments (core) and higher risk investments on the outside. For those with a higher risk profile, individual stocks work well, while mutual funds or ETFs are better plays for those with a lower risk profile.

In my view, an easy strategy to implement is to utilize ETFs as the core and small/micro cap stocks as the satellite. The question is what ETFs? There are so many from which to choose and they all seem pretty similar.

One should think about a handful of ETFs in the core. Of course many start off with the old standby, which mirrors the S&P 500 Index. The State Street SPDR is one of the largest of this flavor.

I am partial to those ETFs that are a little out of the box, and have some real strategy to them, not just a passive investment vehicle. The *Powershares Buyback Achievers* is a very cool example of this. It is primarily a large cap comprised ETF with firms that have engaged in 5% buybacks. While it is not too terribly diversified industry-wise, the results routinely outperform the broader market.

Be aware these buybacks are engaged by the firms, not by insiders.

By implementing core ETF strategies that mirror the S&P 500, gold prices, NASDAQ, etc. while incorporating clever strategies as the one above, it provides some grounding and an upside kicker to complement any satellite investments in the small cap and micro cap worlds.

ETFs are not the only answer but they are a great tool.

Contrarian Part II

A month ago we mentioned Mueller Industries, Inc. (NYSE: MLI) as an interesting play. You may recall that Mueller is one of the leading providers of copper, brass, aluminum and plastic for the plumbing and refrigeration, along with OEM (Original Equipment Manufacturer) markets. It is has been my experience, that MLI is very much a leading indicator for the housing and new construction markets. We noted:

"The stock is up 40% this year and is trading about 16x FY11 EPS estimates and 13x 2012 Street EPS forecasts. Although we are not out of the housing rut yet, if you can buy it on dips, do it. When we do emerge, the company will do very well, in our view."

The stock did drop from the $45 level when we introduced the company. It has since risen 23% from the low in early October. We should note that since that low, it has outperformed the market by more than 60%.

It seems that maybe, just maybe, we might be making progress here. Of course, just like with casual dining, this isn't exactly the greatest season. But, MLI releases financials on Tuesday. Perhaps we will learn more. If it does drop again, I would consider stepping back in.

Notice the theme today? Contrarian industries for stocks and slightly out of the box ETF vehicles. Sometimes this is the way to get extra juice out of a portfolio with lower risk and without heavily concentrated positions. Enter into a reasonable holding period and try to stay a step or two ahead.

It is better to be early than late, and following the herd can get you short term returns, but playing smart, and ahead of the pack can get you higher gains, and usually with lower risk.

Until next week….

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Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

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