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KEY TAKEAWAYS

- ⇒ *Market is rocking and will likely continue*
- ⇒ *Consumer, tech, oil, and gold are the plays*
- ⇒ *We expect a strong end to the year*
- ⇒ *Fiscal cliff, geopolitical issues in Europe and the Middle East will be speed bumps along the way*
- ⇒ *A familiar M&A play for the week*

KEY STATISTICS

Index	Close	YTD
DJIA	13010	6.5%
S&P 500	1409	12.0%
NASDAQ	2967	13.9%
Russell 2K	807	8.9%

(figures are rounded)

STAY ON THE TRAIN

Wow. I don't know how else to describe it. We have been preaching for weeks that once Thanksgiving hit we should start the seasonal rally. Of course we referenced it in our Thanksgiving Special Report last week but the magnitude of the performance took us by surprise.

Not only was it the market's best weekly performance since June, it was a pretty broad based rally. To put it in perspective, when we wrote the Special Report, we were up a couple of percentage points. The returns of the major indices doubled by week's end.

I don't think we are going to see another 4% weekly gain, but the trend is our friend right now. There are secular and market-specific reasons why the market will continue its upward trend for a while:

At first blush, it looks like Black Friday "weekend", was a good one. The National Retail Federation reported that the number of brick and mortar shoppers was up over last year, and the amount of money spent per shopper rose 6%.

Cyber Monday looks to be solid as well. Even though not all the discounts are fully factored in until today, online sales were already up 16-18% for the weekend. Think the endless, I mean endless ads did not help?

An old adage is that October and November's pain is December's gain. By the way, even with the rally, we are still down, quarter-to-date.

With earnings season basically done, little corporate bad news is in the offing.

The rally is led by consumer stocks and tech, both of which were slammed recently. Still, valuations remain largely attractive. Buy them, along with oil and gold.

Could This Derail The Train?

Look, we all know that the market is not without risks. While the rally last week was largely fueled by positive comments regarding the “fiscal cliff”, any stumbling blocks, unresolved issues, changes for the worse, etc. that are discussed will have a negative impact on stocks. In our view, this issue could put a cap on gains, but could also make for another week like last week, albeit 30 days later. Investors should expect that there may be ups and downs, but recent public revolts by key Republicans could signal a fair and balanced end to the issues, along with capital gains taxes, sooner rather than later. We hope.

In any event, we would avoid slow growth dividend paying stocks.

Investors should also expect that any rally be accompanied by negative stories in the financial press regarding Obama care which while falling on deaf ears, could start to impact bottom-line forecasts, as early as this year. What is more of a concern is the low revenue growth experienced by most companies, of late. Rallies in the stock market are best served by true growth, not productivity gains that result in EPS increases. If we can get some top-line growth next year, it will be a good one. If not, well...

Once again, unrest abroad seems to rear its ugly head. While Greece seems to be quiet for the moment, disenfranchisement in Spain, resulting in a potential secession of Catalonia from Spain is likely to turn heads until one can make heads or tails of it. France remains on shaky ground and we expect it will shake its saber in the foreign policy world to assert itself while things at home are rough.

We maintain, reluctantly, that as long as Germany is on stable ground, Europe will maintain some semblance of status quo. Still, any more of what we had earlier this fall will not bode well. An unlikely event in our view, but possible nonetheless.

Still, nothing vexes us more than the trouble in the Middle East. While unrest regarding the former terrorist turned new “Pharaoh” in Egypt will take some pressure off Israel, although it could be the precursor of other, declining relations. Moreover, the on/off conflict in Israel is not going to go away anytime soon.

What does this all mean?

Any or all of the above will serve as speed bumps but not enough to stop the train altogether. Still, better own some oil. Unrest will have an impact on prices, as would any measurable consumer growth in the U.S.

M&A ON THE WAY

Ok. I am going to go out on a real limb here. In early August, Knight Capital Group (NYSE—KCG—\$2.49) announced it had lost over \$400M due to trading miscues associated with its algorithmic trading. The stock collapsed, there were concerns that the Firm, which is one of the largest and most important market makers, would go under. Over the ensuing days, the Company raised enough money to satisfy its net capital requirements and take care of the problem, at least for a while.

At the time, we wrote that we felt it was a good buy and that the stock was oversold. The stock was over



\$3.00 then. On Friday, it closed at \$2.49. Here is the kicker. As of Sunday night, there are rumors swirling that 2 of the firms that bailed out Knight in August were bidding to buy Knight outright. While Knight management has said that that nothing is imminent and that it is happy to continue under the current organization, it will review offers if they are of value to the company and its shareholders.

So what does this all mean? Well, one could take the view that there is smoke but no real fire. We take the opposite approach and take it to another level.

Another troubled firm, Jefferies (NYSE—JEF) just agreed to be acquired by its largest shareholder. The deal was roughly worth a bit higher than JEF's tangible book value (by our back of the envelope calculations. If we use the same metric to asses a buyout price to KCG, we believe it could be acquired for \$3.25—\$3.60. Moreover, the timing of these rumors is very interesting. A week from today, KCG is holding an analyst day. We believe that if all of these stories are accurate, that it could close this week, ahead of the analyst day. It would make perfect sense.

The bottom line is that it will probably be up at the open and we would feel comfortable buying it under \$3.00, but would not chase it much beyond that, if at all. It could be a quick gain this week, or perhaps ultimately be sold at this valuation early next year. In any event, KCG is our play of the day.

Until next week....



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