

## INSIDE THIS ISSUE:

Attractive Retail Stocks

## KEY TAKEAWAYS

- ⇒ *Time to review recent and projected economic data, especially in manufacturing*
- ⇒ *What does the unemployment picture portend?*
- ⇒ *Changes in “cost of money” can have an impact on all asset classes, especially stocks*
- ⇒ *A lot of investors are hungry for this stock which has proven to be a stalwart*

## KEY STATISTICS

Index	Close	2014
DJIA	16805	1.8%
S&P 500	1965	6.3%
NASDAQ	4484	7.3%
Russell 2000	1119	-3.5%

(figures are rounded)

## LEADERS, LAGGARDS, AND LOITERS

For those of us who think we are clever enough to play macroeconomic cycles via market timing of stocks and sectors, these are very contradictory times. Some metrics indicate a looming recession, while others seem to give hope for a coming boom. The roller coaster ride of the markets over the last two weeks only adds to the confusion. This week we decided to take a look at a few of these indicators and come up with some possible plays on trends we see.

### The Loiters

Let's start with two metrics that are used in tandem that usually run coincidentally to the overall macroeconomic situation. The Federal Reserve publishes U.S. Industrial Production and Capacity Utilization on a monthly basis. This combination metric can be applied when trying to understand the cyclic manufacturing industry in particular. The overall Industrial Production Index improved one full percentage point from 104.0 to 105.1 from August to September, which is a big deal since no increases were more than 0.5% over the previous six months. On the other hand the overall Capacity Utilization Index has been hovering right below the 80% mark over the past six months, which is fairly average, nothing approaching an 85% mark which occurred in the mid 1990's.

What these figures tell us is that manufacturing is in good shape and stock picking may be best served by picking a 'hot' industry. Earlier this year we featured **inTEST Corporation (NYSE – INTT - \$4.77)** an OEM supplier of capital and services to the semiconductor industry, (in the *Market Monitor*) and the stock has performed to date, up over 22%. A forecast 6% increase in revenue growth in 2015 puts the forward P/E at a low 12. Couple that with a short float of 0.3%, and there are a couple of good reasons to believe in **INTT**.

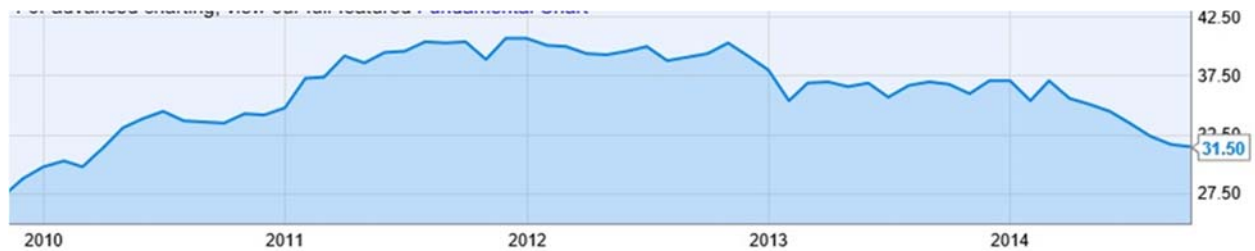
## Laggards...

### The Laggards

Unemployment in the U.S. is a quagmire to say the least. The overall unemployment rate has dropped very steadily since the heights of the Great Recession, but a significant portion of this can be attributed to the lowest participation rate since 'the malaise days of the 70's' as George H.W. Bush put it. Another related metric in this family, which is considered a lagging indicator, is the average duration of unemployment. It is somewhat easy to grasp why this is lagging as employers will wait until it is really bleak to lay people off, or really great to start hiring. The chart below illustrated the 5-year trend in average unemployment in weeks.

#### U.S. Average Duration of Unemployment 2009 - 2014 (Weeks)

Source: ycharts.com



This indicator actually shows a promising trend, again taken with a slight grain of salt due to the low participation rate.

We also reviewed one of our *Market Monitor* stocks that has been up and down, but is currently a laggard. **Jamba, Inc. (NASDAQ – JMBA - \$12.98)** is a good small cap to own as a side play on the overall retail sector. The retail sector has been mixed, but if one is optimistic about the unemployment picture than it may be time to get back in to **JMBA**. The Company not only has its core retail stores business, but produces its own consumer packaged goods through retail channels as well and is constantly testing the market with new products. **JMBA** took a hit with the overall sell-off a few weeks ago, but could climb back over the \$14.00 mark in short order with a general market uptick.

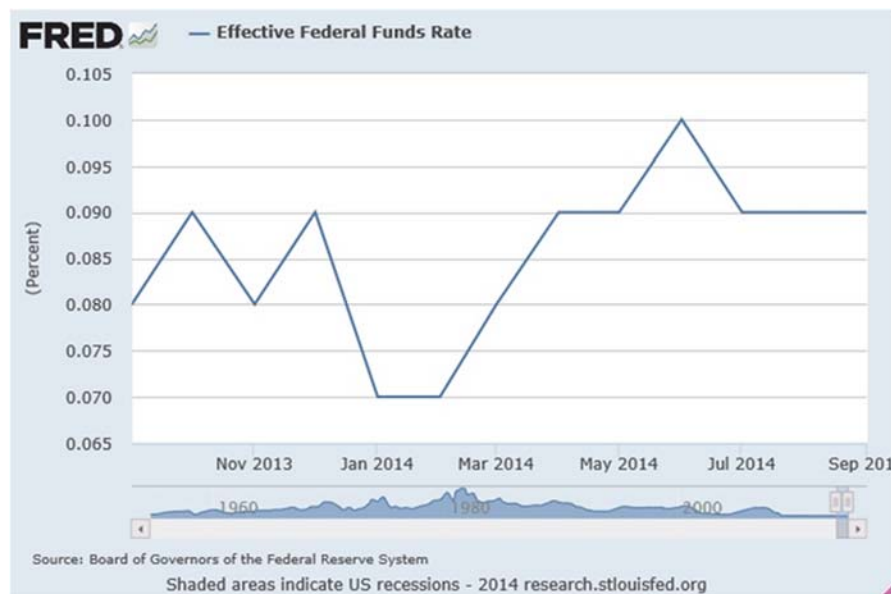
## Leaders...

### The Leaders

Finally we look into the crystal ball into what is somewhat of a hazy area, interest rates. Interest rates and yields are an indicator of future economic activity as a measurement of spreads of short term rates versus long term rates. Additionally, the overnight federal funds rate can be used as a barometer because it involves daily activity and increases indicate the cost of money will go up and decreases indicate the opposite. The chart below is a 1-year chart of the Fed Funds rate.

#### 1-Year Fed Funds Rate

(Source: Federal Reserve (FRED) )



## ***Hunger for this stock...***

A look inside the most recent numbers indicates a gradual increase as Aunt Janet has promised. The key here could be to look at an 'economically sensitive' stock in terms of both price and consumer dynamics.

**The Wendy's Company (NASDAQ – WEN - \$8.41)** has the potential to be a great turnaround story and could be a solid play on rising interest rates, as consumers will have less money to spend, i.e. eating out at fast food chains versus steak houses. The Company has made some solid structural changes, are constantly innovating and testing the menu, and have undertaken a massive remodeling effort in order to transform the store into somewhere to 'hang out'. Operating and gross margins in line with the industry give us a warm and fuzzy feeling, and great technical indicators related to EMA put into a possible quick trade mode also. **WEN** could jump 10% by the end of the year.

In the end, most of these indicators point to a sideways economy. A return to some fundamentals on longer term picks is overdue and high volatility will give us a chance to make some quick trades. These metrics give us a mixed signal and, in the spirit of the World Series, can be summed up most appropriately with a profound Yogi Berra-ism, "If you don't know where you're going, you might end up some place else."

Have a great week! Happy Halloween!



# The Goldman Guide

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