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KEY TAKEAWAYS

- ⇒ *Airline stocks could be in play early this week and AAMRQ could offer a quick pop*
- ⇒ *Some airline stocks could be hurt, others benefit*
- ⇒ *Young investors differ greatly from boomers and how that impacts stocks*
- ⇒ *Some sectors could benefit from the State of the Union address*
- ⇒ *Biotech conference may help specific small biotechs*
- ⇒ *This small bank defies trading and is under steady accumulation*

KEY STATISTICS

| <u>Index</u> | <u>Close</u> | <u>2013</u> |
|--------------|--------------|-------------|
| DJIA | 13993 | 6.8% |
| S&P 500 | 1518 | 6.4% |
| NASDAQ | 3194 | 5.8% |
| Russell 2K | 914 | 7.7% |

(figures are rounded)

Flying Stocks, Rising Sectors

This could be a short week for some investors, as the market is closed next Monday for President's Day. Many investors take Friday off as well, making a nice 4-day weekend. If I had to guess, we will see a good start and a weaker ending, but let's get down to brass tacks.

We will be focused on 3 events this week which could have an impact on stock behavior.

As you no doubt have seen, read, or heard, it appears as if US Airways (NYSE – LCC- \$14.75) will be merging with/buying bankrupt AMR Corp (OTC—AAMRQ—\$1.46) to form the world's largest airline.

While a deal is not yet completed, with the AMR creditors apparently on board and the US Airways pilots union in favor of it as well, all that is needed are board approvals. AMR's stock had a big move on Friday (up 16%) and it is likely that the trend will continue, at least incrementally. Terms put forth in the press are likely in the ballpark, and assume that AMR creditors will have a substantial stake in the merged entity, and equity holders would have up to \$8 billion of a combined \$11 billion entity. For the adventurous, AMR debt and/or stock could provide investors with a quick pop this week, as a result. We would buy on rumor and sell on definitive news.

It will be interesting to see how this deal affects other airline stocks. It is likely a negative for Delta (NYSE—DAL) as well as United Continental (NYSE—UAL). However, niche (M&A candidate) airlines such as Alaska Air (NYSE—ALK) and JetBlue (NASDAQ—JBLU) could be beneficiaries. We believe that this transaction is a non-event for Southwest Air (NYSE—LUV). Investors who plan to use options to play these stocks should exercise caution pending more clarity.

Does This Surprise You?

I rarely read news stories from Fox Business, although I do watch the television network in bits and pieces, along with CNBC, for part of the day. I just happened to catch what I view as a great article on young Investors. If the thesis is true, it could change the shape of how investors approach stocks and their retirement, along with the stock market for years to come. Here is a link to the story: <http://www.foxbusiness.com/investing/2013/02/08/youngest-investors-play-it-safe/?intcmp=HPBucket>.

Key excerpts:

“...43% of millennials, individuals between ages 21 and 30, describe themselves as conservative investors, compared with just 31% of baby boomer investors. To that end, millennial investors say they are more likely to invest in tried-and-true investments than older generations. Though they are more conservative, millennials are also very skeptical about relying on the advice of financial advisers. In fact, they are four times more likely than baby boomers to question the advice of a financial adviser. Forty-four percent also say they want to become a master of investing.”

Admittedly, we were surprised. However, in anticipation of this trend, for months we have been building a great new website focused on investor education on the topics of investing, trading, personal finance, etc. Be on the lookout for more information. Much like our current website, *The Investor Academy* will be rich with timely, very useful content, tips and strategies, as well as incredibly valuable premium content as well.

State of the Union

In addition to the airline space early in the week, by mid-week, investors will have their eyes and ears focused on President Obama’s State of the Union address. While we do not expect anything earth-shattering, from time to time, comments from these addresses can have an impact. With an expected emphasis on economic policy, jobs, and health care, we expect the market could get a little boost, including the health care, green tech and technology sectors. Homebuilders may also see a boost. More on that later this week.

The B and the B: Biotechs and Banks

This could be a good week for small biotechs. The Bio Vest conference in New York this week often provides a couple of small, underfollowed stocks a boost, if they tend to have news. We caution that in the absence of news, some of the presenting companies end up being good sale candidates by week's end, rather than buys.

Still, it is important to note that this event is a great way for CEOs to tell their stories to investors, although lately it seems as if there are more people hawking services and their own stories rather drawing substantial numbers of investors, as in years past. We have a number of colleagues on the ground there and will keep you apprised of worthwhile events and potential stock picks.



We would be remiss if we didn't make at least a mention of what steady (despite small) accumulation can do for a stock, even a savings bank stock, as evidenced by Jefferson Bancshares (NASDAQ—JFBI - \$4.11.) We profiled it Friday morning and the stock ran 10% on double average daily volume.

The bottom line here is that JFBI has been under steady accumulation (albeit on low volume) since reaching a low of \$2.48 on December 27th and seemingly records a new 52-week high every 10 days or so. As a result, the charts indicate a very bullish signal in the short-term.

Is the stock in play for a takeover? Unlikely. With only \$400M+ in deposits, this is still a small savings bank. Still, the bank continues to be well-capitalized under regulatory requirements and has now 4 consecutive quarters of profitability under its belt. We believe the risk-reward trade off on this one is worth it, especially since the company turned the corner from an operational stand point and is in the center of some very favorable demographics and trends. We believe that a bounce to the \$5 range by the end of 2Q13 is possible if trends continue. Regardless, even low volume boring stocks can bring rewards.

Until next week...



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