

**INSIDE THIS ISSUE:**

These Sectors Could Rock  
December Stock Picks

**KEY TAKEAWAYS**

- ⇒ *The retail sector could have a strong holiday season despite early reports of poor brick and mortar sales*
- ⇒ *A big drop in oil should be a big boost to consumer stocks, airlines, and certain manufacturers...*
- ⇒ *...but it could hurt emerging markets and nations that produce oil*
- ⇒ *We profile two cheap and well known airline stocks*
- ⇒ *We also profile a low-priced, inexpensive retail stock slated to release 3Q14 results this week*

**KEY STATISTICS**

| <u>Index</u> | <u>Close</u> | <u>2014</u> |
|--------------|--------------|-------------|
| DJIA         | 17828        | 7.4%        |
| S&P 500      | 2068         | 11.8%       |
| NASDAQ       | 4792         | 14.7%       |
| Russell 2000 | 1173         | 0.7%        |

(figures are rounded)

**THREE KEYS TO BIG DECEMBER GAINS**

Not only is today the first day of December but it is the highly marketed and ever-important Cyber Monday where consumers are sure to find great holiday deals online.

The period from Thanksgiving Week through year-end is usually highlighted by a resurgence in growth stocks and retail stocks in particular and last week was no different. This time around however, trends, drivers, and events are different and will likely shape trading for the next few weeks.

**Theme #1: The Retail Game Has Changed**

Close followers of history remind us that history is borne to repeat itself and that new dynamics are not new at all. For some time I subscribed to this theory but economies and markets, much like nations and their peoples, evolve. We even see it on a small scale in college sports.

Years ago, college football was dominated by slow bruising behemoths who gained yardage and scored touchdowns by only running the ball, then migrated to a mix of the run and the pass. Although total points scored did not rise substantially in these games, that has changed in the past few seasons. All one has to do is look at the scores from this past weekend and see that football scores are now akin to basketball scores, just like current valuations are higher than traditional ones. .

For decades, the day after Thanksgiving served as the biggest retail sales day of the year. It became so important that the moniker 'Black Friday' was coined to describe the shift of retailers' P&L statements from the red to the black.

Today, Black Friday sales, especially those generated via traditional bricks and mortar sales, are becoming marginalized. We see it in the data from this past weekend.

## ***These Sectors Could Rock***

Brick and mortar sales are down 11% and even the dollar amount sold (in total and per customer) is down incrementally. It is no surprise that online sales are up big time. With stores now open on Thanksgiving Day and the ubiquity of easy-to-use mobile and other computing devices, who wants to go to a store to buy gifts?

It used to be that we would hear about new and cool gadgets, gizmos, and other, trendy apparel offerings through ads or words of mouth but we had to go to the store to see them and fight for a peek, let alone for an opportunity to buy them. These days, retailers are discounting earlier than ever and to an even greater degree. In the past we were conditioned to believe that the best bargains would be found in the stores this past weekend. Today, it appears that the best deals are to be found on Cyber Monday, or later in the month.

To be certain, this week stocks may trade lower in response to these seemingly poor retail results highlighted above. However, we believe that any weakness in retail should be viewed as a buying opportunity. Year-over-year sales are still expected to be up nearly 4% and the power of the online shopper has yet to come to light, rendering the recent holiday sales period inaccurate and somewhat moot. Moreover, since the big discounting has begun early, expect for retailers and pundits to have a better handle on holiday sales sooner rather than later.

### **Theme #2: Steep Drops in Oil Are Good and Bad for Investors**

Like many market players, I was not around when oil dropped by 10% on Friday. While its effect on stocks was swift, the impact is not over—by a long shot. On the plus side, such declines should have a profound effect on the consumer as they should result in lower oil prices. Producers of plastics and the like that employ materials from petroleum should also enjoy a margin boost.

Perhaps the biggest winner is the airline industry, a fact we highlighted with our travel and airline stock pick in our Thanksgiving Special report released last week. Usually, big drops in oil are a sign of slowing economies since they are associated with demand. In this case, it is more about supply (namely the output of the U.S.) rather than slowing economies. Interestingly, emerging markets that are big importers of oil will benefit from continued decreases in oil prices and could be buys. While we believe there is more to come, what is more important is the sustainability of lower prices—the impact will then become more easily measurable.

## December Stock Picks

Meanwhile, there are some nasty after-effects from the oil price drops. In the U.S., they don't always correlate as a driver of equities in general, only specific sectors, as outlined above. Of course all energy related stocks are going to continue to face major headwinds while some auto stocks, especially those selling SUVs, could enjoy gains. Outside the U.S., those nations who depend upon OPEC leadership and the export of their own oil for revenue are in for some real pain. Twenty years ago, we would have cited Mexico as a loser. Now, Venezuela and Russia seem to be big losers. The oil price decline could prompt Emperor-in-Chief Vladimir Putin to be an even bigger wild card politically, which could cause volatility in world markets based upon his occasional geopolitical moves.

### Theme #3: Make Your List, Check it Twice

The next two weeks will see the effect of year-end selling on big losers. Make your list of small, emerging stocks that stunk up the joint this year for they will likely outperform next year. You might even consider an oil play, although I would avoid the sector until 1Q15.

### Bonus: Stocks to Own in September

As noted above, two beneficiaries of lower oil prices are airlines and consumer stocks. In addition to the **Allegiant Travel Company (NASDAQ—ALGT)** mentioned in our recent special report, former 30-30 pick **JetBlue Airways (NASDAQ—JBLU—\$14.63)** and regional airliner **Hawaiian Airlines (NASDAQ—HA—\$20.29)** could still move higher, after Friday's strong performance. JBLU trades 13.9x consensus FY15E EPS estimates, a 56% rise over expectations for 2014. HA trades at a paltry 10.7x FY15E EPS estimates, as compared with the 20% estimated EPS increase from 2014. Plus, the huge success of the recent Virgin America (NASDAQ—VA) IPO could put more focus on this space, which will add liquidity.

On the retail side, **Sportsman's Warehouse Holdings Inc. (NASDAQ—SPWH—\$7.05)** looks great at current prices. SPWH is an outdoor sporting goods retailer with stores in 50 states. EPS for the January 2015 year are projected to hit \$0.51, up from break-even last year. For next year, EPS should rise 35% to \$0.69, on a 20% rise in sales. Thus, SPWH trades at a paltry 13x this year's EPS estimate and only 10x next year's forecast. The shares trade near the low end of the range but that could change when 3Q14 results are released later this week. After all, with 15% of the float short, a solid report could drive the shares higher. Caution: SPWH is loaded with debt and is cash poor so a negative report could take the price down a few notches.



# The Goldman Guide

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