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SPRING AHEAD AND SO WILL THESE STOCKS

Stocks took a big tumble on Friday after trading essentially flat for much of the week. Our take? Much ado about nothing as long as you are focused on the right sectors.

Let's face it. Bears and nervous nellies have been waiting for a reason to sell stocks once NASDAQ broke through the 5000 mark on Monday—which was the first time in 15 years. The selling catalyst on Friday was a better than expected employment picture, especially in light of the dreadful weather of late. Apparently, some market watchers fret that it will result in a sooner rather than later, interest rate hike. A hike is inevitable, and usually hurts virtually all equities—hence, the big drop on Friday.

Stock market strategists and analysts know that an interest rate increase tends to affects utilities more than any other sector, since this equity class is known for its high dividend and income feature. Therefore, one could argue that the direction of utilities is a leading indicator of interest rates. Folks, if that is the case, then we would argue that the market has, at least to a fair degree, already factored this element into stocks. After all, utilities dropped by over 4% last week and are down over 8% for the past month—-by far the worst performing sector.

It should be noted that in addition to the poor performing utilities sector, big caps in general haven't set the world on fire and many indications (fund flows, valuations, operating and stock performances) are that funds could migrate from big cap to small cap. A number of small caps are now trending very nicely on a technical basis, with many setting new highs on increasing volume. Look for this trend to continue as stocks, like our clocks this past weekend, spring ahead.

KEY TAKEAWAYS

- ⇒ *Interest rate hike fears may already be factored into stocks as utilities have been crushed*
- ⇒ *Current flows and valuations indicate a migration from big caps to small caps*
- ⇒ *With utilities under pressure alternative energy players such as FNRG, which has reached new highs, appears attractive*
- ⇒ *Biotech is on fire with the aid of high valuation M&A and it should continue with the small companies*
- ⇒ *SKX expected to enjoy huge EPS growth trades at a big discount to its peers*

KEY STATISTICS

Index	Close	2015
DJIA	17857	0.0%
S&P 500	2071	0.6%
NASDAQ	4927	4.0%
Russell 2000	1218	1.1%

(figures are rounded)

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Three Leading Sectors

With interest rate rises looming ahead, growth stocks, particularly those not sensitive to interest rates, are the place to be.

Which sectors could be the big winners? While utilities plunge into the toilet, alternative energy providers, whose fortunes are not tied to interest rates, have been solid and some have hit new highs of late. Clearly, this is a place to be. (See our most recent non-sponsored research update on **ForceField Energy (NASDAQ—FNRG—Spec Buy.)**

http://www.goldmanresearch.com/20150302933/Opportunity-Research/new-year-high-means-new-target-price.html

Even more impressive has been the performance of the biotech space, aided in large part to a spate of big cap M&A. Proof of this phenomenon is the move in big cap biotech ETF bellwether **iShares NASDAQ Biotechnology (NASDAQ—IBB—$342.36)**, which is up over 12% year-to-date—and that isn't even the best performer. The more diverse ETF, which also tends to focus on smaller names, **SPDR S&P Biotech (NYSE—XBI—$224.72)** is up around 20%.

The upshot is that biotech's tear, especially in small caps, is likely to continue, fueled by M&A's high valuations. The stocks are under incredible accumulation and savvy investors would be wise to find those stocks that have not yet begun to move.

Another interesting play could be consumer apparel companies. With much of the U.S. stuck indoors due to terrible weather in recent weeks, spring cannot come sooner, and along with it will be "spring wear." One growth stock that trades well below its peers despite a high forecasted EPS growth rate is **Skechers, U.S.A, Inc. (NYSE—SKX—$66.79.)** This familiar domestic brand sells a diverse range of lifestyle footwear for men, women and children, as well as performance footwear for men and women. SKX footwear is available in the United States and over 100 countries and territories worldwide via department and specialty stores, more than 1,000 SKX retail stores, and the Company's e-commerce website. The Company manages its international business through

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Big EPS Growth, Low Valuation

SKX has enjoyed some good news of late, not the least of which is the announcement that it has been named Footwear Brand of the Year and Fashion Footwear Brand of the Year at The Footwear Industry Awards. Skechers was also highly commended in the Sports Brand of the Year category. This achievement follows a year when Skechers won multiple top industry awards in the United States, including Company of the Year from both *Footwear News* and *Footwear Plus*.

From the operational standpoint, the Company is on fire, with two consecutive record quarters in terms of revenue, and a 29% jump in total sales for 2014, which were $2.4B versus $1.85B in 2013. EPS for the year was $2.72, more than double the $1.08 achieved in 2013 and management appears very upbeat about 2015. In fact, the Company projects that with a huge backlog increase and a strong rise in same store sales for January, 1Q15 will be another record revenue period. Moreover, EPS is expected to fall in the $0.95—$1.05 range—-which is essentially the total EPS for the entire 2013 year!

Overall, Wall Street is expecting a 22% rise in sales this year to $2.91B with EPS of $3.93, a 45% increase, and a 21% rise in EPS projected for 2016. At current levels, the stock trades at a reasonable 17x thus year's EPS estimate, despite the high growth rate. Plus, it trades at a major discount to other, similar players, such as Nike (NYSE—NKE) and Under Armour (NYSE—UA), which trade near 30x and over 70x the next 12 month's EPS forecasts, respectively. Therefore, investors should target a 25% gain on these shares this year. Our only caution is that the 50-DMA on the stock is $61.66, which about 9% below its current price. If the market were to get hit hard, and these shares along with it, once it trades below this level it could come under some pressure. Therefore, we would engage a stop-loss just in case.

Have a great day!

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