

## INSIDE THIS ISSUE:

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## KEY TAKEAWAYS

- ⇒ *New phase of terror has brought out gun control and gun advocates*
- ⇒ *As a result gun sales are surging and there is no end in sight*
- ⇒ *Gun stocks may be at year highs but have the wind at their back and trade at reasonable valuations*
- ⇒ *This big loser for 2015 is now under accumulation, has sparked the ire of an activist investor, and is in the midst of a division sale. All of this spells higher stock prices*

## THE MAJOR INDICES

Index	Close	2015
DJIA	17848	0.1%
S&P 500	2092	1.6%
NASDAQ	5142	8.6%
Russell 2000	1183	-1.8%

(figures are rounded)

## IT'S A DIFFERENT BATTLE TODAY

Seventy-four years ago today, Japan attacked Pearl Harbor in a surprise event that thrust the U.S. into WWII. It is amazing to think that the youngest survivor of that event is 92 years old. Our hats are off to those that gave their lives and those that survived and were a part of what is considered "the greatest generation."



Unlike the battles of those times and wars years later, we are now engaged in the other side of the war on terror. Much as many wish to ignore the unmistakable signs, such as President Obama, it cannot be denied an longer. After all, when Obama has only his third evening press conference from the Oval Office to state that we have entered a new phase here, it is for real.

When the events of last week in California and in England over the weekend referred to as terror events, we must concede that something has to give or change.

No longer are attacks prepared by major armed forces, or even smallish cells/groups alone. They can be small groups or lone wolves that attack at will in an uncoordinated fashion here in the U.S. and with much planning abroad.

These events have prompted more discussion regarding greater gun control and the lessening of current guidelines. The government and our citizenry are locked in a conflict over what steps to take. There is a reason gun sales are surging and the more gun control advocates make noise or these horrific events occur, the more gun sales will climb. Thus, it is a no-brainer town these stocks, regardless of their YTD performance, will move higher.

## The Stock Market Today

U.S. Stock Market Index Performance as 12/4/15								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Above 200-DMA
DJIA	17,848	18,351	15,370	5/19/15	8/24/15	2.7%	16.1%	1.5%
S&P 500	2,092	2,135	1,867	5/20/15	10/17/14	2.0%	12.1%	1.3%
NASDAQ	5,142	5,232	4,242	7/20/15	10/17/14	1.7%	21.2%	3.6%
Russell 2000	1,183	1,296	1,079	6/23/15	10/20/14	8.7%	9.6%	-2.6%
Average						3.8%	14.8%	1.4%
Source: www.BarChart.com, Goldman Small Cap Research								

This is not a new concept nor are we necessarily early in this cycle. Still, in the past we have recommended **Smith and Wesson (NASDAQ—SWHC—\$ 18.99)** and **Taser International (NASDAQ—TASR—\$17.77)**, and even though SWHC has almost doubled, the current trends cannot be overlooked or denied. For that matter, **Sturm, Ruger (NYSE—RGR—\$54.32)** is going to remain under accumulation as well.

Whether you are an advocate for more gun control or the loosening of regulations, these stocks are not really that expensive. SWHC and RGR for example, trade between 14—16x 2016 Wall Street EPS estimates and they may crush current 4Q15 forecasts. I would not be surprised to see them trade to the 20x level, especially if (heaven forbid) we are hit with another attack on U.S. soil, whether from home-grown or foreign-born perpetrators.

Not a fan of this concept? Each year around this time, year-end selling occurs in stocks that have been poor or disappointing performers over the previous 6-12 months. The heavy and steady selling in these securities typically results in unique oversold opportunities toward the end of the year, especially in small cap stocks. Moreover, history illustrates that many of one year's big losers tend to be strong performers during the early part of the following year. With that in mind, here is an interesting and controversial candidate.

## ***Opportunity Knocking?***

If you are older than 40, the brand name Avon may make you wax nostalgic as you remember your mother or grandmother buy **Avon Products (NYSE—AVP—\$4.22)**, or even picture the Avon lady that sold them door-to-door years ago. For the uninitiated, Avon bills itself as is the company that for more than 125 years has stood for beauty, innovation, and optimism for women. With a projected \$7 billion in annual revenue in 2015, Avon has products that are sold through 6 million active, independent Avon Sales Representatives worldwide. Avon products include color cosmetics, skincare, fragrance, and fashion and home, featuring well-recognized brand names.

The stock is down a whopping 53% year-to-date as revenue and EPS have been crushed this year. Sales are forecasted to drop by 19% with EPS generation of a paltry \$0.14 as compared with \$0.75 in 2014. The good news is that management appears to have stemmed the bleeding as of 3Q15 and Wall Street has revised its EPS expectations to \$0.33 for 2016, more than double the forecast for 2015. Management is hosting an investor day on January 21, 2016 which is likely to spark renewed confidence and interest in the stock and likely coincide with a reduction in its annual dividend, which has long been expected and would be lauded by Wall Street.

Plus, just last week, AVP announced it is selling its North American business to a private equity firm. While some believe it can unlock value, other, vocal, activist investors are slamming it, citing the price as too low. Since then, the stock has risen on strong volume and could result in a higher price not just for the unit but for the company as a whole. I think the stock could trade well above the \$5 level by early next year, which represents 15x—18x the 2016 EPS estimate, and a 40%+ return.

Have a great week!

## **Say What?**



Great info, insights, and hard-hitting stories make up this week's *Say What?* feature...

### *International Business Times*

<http://www.ibtimes.com/global-recession-coming-bond-market-decline-has-investors-spooked-2213352>

Might be a bit alarmist but very useful perspective.

### *Bloomberg*

<http://www.bloomberg.com/news/articles/2015-12-04/opec-unity-shattered-as-saudi-led-policy-leads-to-no-limits-ihs9xu51>

Looks more pain for oil producing countries and companies.

### *The New York Post*

<http://nypost.com/2015/12/06/white-house-chef-dishes-big-secrets-and-a-crazy-surprise/>

Funny stuff even if it isn't true.

### *USA Today*

<http://www.usatoday.com/story/news/politics/2015/12/06/obama-seeks-reassure-americans-amid-renewed-terror-fears/76897864/>

The "T" word.

### *Marketwatch*

<http://www.marketwatch.com/story/holy-grail-of-shipwrecks-has-been-found-off-colombias-coast-2015-12-05>

Beware the run on shipwreck stocks.

## Just the Stats

### AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	30%	32%	39%
Neutral	49%	42%	31%
Bearish	21%	26%	30%



Huh? In the AAll survey half of the respondents are Neutral while nearly half of the Ticker Sense bloggers are bullish. What gives? Considering we are entering an historically strong period, we agree with the latter rather than the former. Moreover, time will likely bear this out as well.



November 30 - December 4, 2015



November 23 - 27, 2015





# The Goldman Guide

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