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## KEY TAKEAWAYS

- ⇒ *The correlations between March Madness and how we invest*
- ⇒ *Nice technical move for big stocks but the rally is a narrow one with big cap consumer staples, small banks and metals leading the charge.*
- ⇒ *Even with big advancers, there are few new highs*
- ⇒ *Our 2015 pick of the year hit a new high and is still cheap.*
- ⇒ *Small cap banks on the move and this one looks like a growth stock with a bank valuation*

## THE MAJOR INDICES

Index	Close	2016
DJIA	17213	-1.2%
S&P 500	2022	-1.1%
NASDAQ	4748	-5.2%
Russell 2000	1088	-4.2%

(figures are rounded)

## MARCH MADNESS: BASKETBALL & STOCKS

Here's more information than you wanted to know: I got the "I can't help it."



I write the Guide on Sunday nights and sometimes don't finish until 3AM (like to-night), as my ideas throughout the week-end may not coalesce right away. Or, as is the case tonight, I am particularly distracted with a fever known in the States as "March Madness."

On and off since 1980, my brother and I have been involved in college basketball in some way shape or form, be it with coaches, players, scouts, announcers, statisticians—you name it. Hell, as I type this, my brother just ran into the single game consecutive free throw record holder at UNC's Dean Dome while shopping for bread. While we have generally soured on the sport in recent years, I have been captivated by this season and frankly, just want to stop writing and look at the brackets.

I wonder what would happen if investors approached stock investing the same way they approach picks for their brackets? We can assume that the FANG stocks **Facebook (NASDAQ—FB)**, **Amazon (NASDAQ—AMZN)**, **Netflix (NASDAQ—NFLX)**, and **Alphabet (NASDAQ—GOOGL)** would be the #1 seeds. Which one of these would you choose to go all the way and be the performance winner?

## ***March Madness (cont'd)***

And if you select only #1 seeds to make it to the Final Four does that mean that you have a preference for FANG stocks and not underdogs or microcap stocks? If your bracket is filled with 12 seeds beating 5 seeds and 13 seeds beating 4 seeds, are you a risk taker, a small cap or penny stock lover, or do you just root for the underdog?

Perhaps you think that the fix is in for the investment pros and that games are being played at the expense of the little guy. After all, in this year's NCAA Men's National Basketball Tournament offers so many odd matchups. The Maryland Terrapins (tortoise) play the South Dakota State Jackrabbits (hare). Venerable teams that never play each other may be forced to next week. (See: Indiana/Kentucky, Notre Dame/Michigan.) The University of Virginia plays Hampton. I could go on. Do these games make us watch more? If games are played in the stock market does that move us to invest or trade more to take advantage of or try beat the system?

We all have favorite teams and favorite stocks and our moods can change dramatically with the rise and fall of these maddening groups. How do we distance ourselves emotionally?

Look, this country was based upon the success of the little guy, the underdog and we would happily cheer it. Unfortunately, judging by the low volumes and lagging performance in small cap and micro cap stocks, and the interest and movement in the FANG stocks and their brethren, it appears that we are too easily drawn to leaders just due to name and reputation alone. The net result is biblical in nature: interest and performance beget volume and rises in stock prices while the laggards, well, lag.

The longer the small stocks lag, the harder and longer it will take until things change, especially if big stock performance is in the green while small stock performance is in the red. However, all good things must come to an end and if there is one thing for certain, it is that leaders eventually lag and laggards eventually lead. The key is to follow, root, and be ready to leave the comfortable confines of the favorites and side with the underdogs when the tides begin to turn. And that tide may soon be upon us.

## The Stock Market Today

U.S. Stock Market Index Performance 3/11/2016								
Index	Close	52-Wk Hi	52-Wk Low	Hi Date	Low Date	% off High	% from Low	% Below 200-DMA
DJIA	17,213	18,351	15,370	5/19/15	8/24/15	6.2%	12.0%	0.3%
S&P 500	2,022	2,135	1,810	5/20/15	2/11/16	5.3%	11.7%	0.1%
NASDAQ	4,748	5,232	4,210	7/20/15	2/11/16	9.3%	12.8%	-2.7%
Russell 2000	1,088	1,296	943	6/23/15	2/11/16	16.0%	15.4%	-5.6%
Average						9.2%	13.0%	-2.0%
Source: www.BarChart.com, Goldman Small Cap Research								

Well, it sure took long enough. It took nearly seven months before the Dow Jones and the S&P 500 Index finally reached above their 200 day moving averages, which were achieved late last week. It is a strong technical analysis achievement. We are still down for the year ever so slightly but it is certainly an encouraging sign, even if it is driven in fair part by the rise in oil prices.

Just think. A month ago, the Dow Jones Industrial Average was down nearly 12% for the year and the S&P 500 declined by roughly the same amount. What a difference a month makes. Still, NASDAQ and the Russell 2000 remain below the 200 DMA mark, even with the double digit jumps from the recent lows. Interestingly, the 12-month forward P/E on the S&P 500 and the Russell 2000 are nearly indistinguishable, while the NASDAQ 100 Index P/E is 6% higher than these indices.

I know what you are thinking. That is interesting, but what the hell does it really mean? It means that this rally is a narrow one and if you aren't invested in the narrow group, then GARP and value are the place to be to get the best bang for your buck and limit risk. How narrow is this group that is leading performance? As an example, on Friday, the Dow rose by over 1% and the NASDAQ Composite jumped by nearly 2%. Over 1800 stocks advanced on the NYSE but just 65 hit new highs, while only 36 of the 1900 NASDAQ advancers hit new highs. Normally, the numbers would be higher.

## ***The Winners***

So, what kinds of stocks are hitting these new highs? They aren't necessarily your momentum plays per se, that trade at nosebleed valuations. On the contrary, many are laggards. For example, automated inspection technology leader **Orbotech (NASDAQ—ORBK—\$23.81)** one of my all-time faves and our small cap pick of the year in 2015 not only hit a new 52-week high Friday but reached its highest point since 2007! Logic would dictate that it means **ORBK** is at a high valuation. Au contraire mon frere. Even at current levels the stock trades at less than 10x its \$2.45 projected 2016 EPS estimate, a 17% rise from last year. For now, the stock looks like it can go to \$28-29.

In terms of groups, we mentioned early in the year that small or regional banks would be good plays sometime in 2016 and finally get their due. Right group, wrong time, as the group has been on fire of late. As with **ORBK**, there are some enjoying huge growth that indicate more daylight ahead, as they are behaving like growth stocks, yet trade at favorable valuations.

A great example of this phenomenon is new 52-week high achiever **Banc of California (NASDAQ—BANC—\$16.04)**, a bank with over 100 offices in California and the Western states, and \$8 billion in assets. Not only is the stock up 10% from a recently priced secondary offering, but the bank has redeemed high interest rate bonds, saving a chunk of cash. If you only looked at its income statement, you would never think it is a bank. EPS is forecast to rise 15% to \$1.54 this year on a 30% jump in revenue, while EPS projections call for a 22% leap next year on a 20% increase in revenue.

At current levels, the stock trades just a hair above 10x this year's EPS and 8.7x net earnings per share for 2017. Plus, it pays a 3% dividend. To put this in perspective, **SHBI** and **FMNB**, trade 17x and 13x this year's EPS, respectively. Granted, their EPS growth rates are higher than the forecast for **BANC**. Still, **BANC** offers greater upside and lower downside as typical P/Es tend to be in the mid-teens. We like the outlook for the other stocks as well, but a 25% rise this year to \$20 seems to be a safer bet to **BANC** on. After all, it is like a growth stock with a bank stock valuation.

## **Say What?**



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

### *Bloomberg*

<http://www.bloomberg.com/news/articles/2016-03-13/ignored-for-years-a-radical-economic-theory-is-gaining-converts>

There is merit to this notion and I can see it impacting future policy and markets.

### *The Reformed Broker*

<http://thereformedbroker.com/2016/03/13/a-tech-powered-disinflationary-world/>

Simple and accurate—and that phrase is just the beginning.

### *New York Post*

<http://nypost.com/2016/03/08/20-times-in-history-people-were-really-really-wrong-about-technology/>

This has been around for a few days but it is really amazing.

### *Marketwatch*

<http://www.marketwatch.com/story/what-investors-can-learn-from-how-they-read-the-news-2016-03-09>

Brilliant!

### *ZeroHedge*

<http://www.zerohedge.com/news/2016-03-12/visualizing-militarization-middle-east>

Crazy, fascinating, and scary—all at the same time.

## Notable Numbers

### AAll Sentiment Survey (figures rounded)

	<u>Current</u>	<u>Last Week</u>	<u>Long Term Avg</u>
Bullish	37%	32%	39%
Neutral	38%	39%	31%
Bearish	24%	29%	30%



From Bearish to Bullish again, here we come. And my guess is that if we are up again in the next few days, this trend will continue. Interestingly, the Ticker Sense Blogger Sentiment Poll for last week indicated 40% Bulls, 28% Neutral and 32% Bears. This indicates that pros are actually a bit more cautious than individual investors, but members of both groups are feeling much better about prospects for the next 30 days.

### Sector Notes:

While banks and metals hit 52-week highs on Friday, a bunch of big-ass consumer stocks hit all-time highs. In my mind, this speaks of the narrow movement and value rotation to low-growth companies. Conversely, small cap health care stocks hit 52 week lows. The bottom line? Investors are trying to de-risk their portfolios yet participate in growth via sector or investment category rotation. And, such favorable moves in the consumer sector bodes well for the future for nearly all stocks, even if these are consumer staples, such as food.

Some of the notable all-time high consumer winners include:

Campbell Soup (NYSE—CPB)

Dollar General (NYSE—DG)

General Mills (NYSE—GIS)

McCormick (NYSE—MKC)

Phillip Morris (NYSE—PM)





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