Barron's Summary
Saturday, November 04, 2017 08:25:41 PM (GMT)

- **To add this weekly email alert**, send a request to alerts@streetaccount.com.
- **Cover**:
    - Sexual harassment needs to be seen as a serious investment risk. Companies that tolerate or cover up sexual harassment, perpetuate a culture that fosters it, or fail to provide avenues for employees to report concerns or incidents, could see their bottom lines take a hit from difficulties attracting and retaining talented employees, customer defections, or ruined deals. In addition, research from Morgan Stanley shows that companies with greater gender diversity, and policies that support it, tend to deliver better risk-adjusted stock returns (link).
- **Features**:
    - **Intel (INTC)**: Barron's is positive on Intel, whose Q3 results reported 26-Oct beat expectations, showing data-centric revenues rising 15% y/y, while the long-slumping PC business was stable. It is new products, however, that should get investors excited. In particular, Barron's likes the company's plans to release a new line of A.I. chips developed in collaboration with Facebook (FB), as well as its position as an early leader in autonomous driving, thanks to its purchase of Mobileye. Shares of Intel are discounted to the market, trading at around 14 times this year's earnings forecast. Shares could rise another 25% and still trade at a small discount to the market. Earnings estimates have been increasing, and the stock features a 2.3% dividend yield (link).
    - **General Electric (GE)**:
        - JP Morgan Analyst Stephen Tusa shares his bearish case on **General Electric (GE)**, which he rates Underweight with a $20 price target (current price $20.14). Tusa believes new CEO John Flannery is "doing and saying the right things so far", but will have to cut the dividend, perhaps even more than the market has already priced in. The biggest reason the cut has to happen is that GE isn't generating enough spendable cash to invest in new technologies. Looking for an alternative in the industrial space? Tusa likes **Honeywell (HON)**, citing its free-cash-flow yield, lack of complexity, and attractive growth outlook (link).
        - GE's investor day is scheduled for 13-Nov. New CEO John Flannery is expected to unveil cost-reduction plans, an assessment of the business portfolio, new restructuring charges, and a 2018 financial outlook. Barron's Steven Sears offers some options trading strategies heading into the event. Specifically, he's taking profits on an existing bearish GE trade and initiating a new trade at a lower strike price, even though a lot of bad news is already priced in (link).
        - Investor confidence in GE has eroded, and the stock price is back at 2012 levels. At a current share price around $20, is now the time to buy? From a technical perspective, GE stock has retraced 50% of its 2009-2016 rally. While this level does pique investor's interest, the bearish trend here is particularly powerful, and there is no obvious level of technical support until $15. While this could be the stock buy of the decade, investors should wait for either an unambiguous selling climax, also known as a capitulation, or a strong upside reversal due to a sea change in investor sentiment (link).
    - Barron's examines the long-awaited House of Representatives tax overhaul, details of which were made public Thursday morning. The overarching theme of the legislation is lower taxes mainly for corporations and smaller businesses, not for individuals. Market strategist Ed Yardeni's assessment of the legislation is that it its a "tax cut for companies, paid for by higher taxes on wealthier individuals because their top rate isn’t going down and some of the deductions they take will go away.” Note that the proposal is just the beginning of what figures to be an intense battle in the House and Senate that could ultimately produce a very different-looking tax overhaul, or no changes at all (link).
    - Profile examines Archibald Ciganer, manager of the T. Rowe Price Japan fund. He expects the bull market in Japanese stocks to continue. He looks for companies that are in the middle of a turnaround, or benefitting from secular trends such as changing consumer patterns or technology. Positive mentions for **Persol Holdings (2181.JP), Benefit One (2412.JP), Pola Orbis Holdings (4927.JP), Keyence (6861.JP), Nintendo (7974.JP),** and **SoftBank (9984.JP)** (link).

- **Columns**
  - *The Trader:* Details on a controversial tax plan and a change at the top for the Federal Reserve did nothing to derail the market's upward momentum, with the Dow, S&P, and Nasdaq all finishing the week at record highs; It is the best-performing stocks that have kept the indexes moving higher, a sign that we are in a true momentum-driven market; Valuations on momentum names are surely stretched; That doesn't mean they can't stretch further, but how much and for how long? Perhaps momentum will lose its mojo when the so-called "January Effect" kicks in around mid-December, which coincides with the FOMC meeting on Dec. 12 and 13.
    - *Trader Extra:* Energy has been the second-worst-performing sector in the S&P 500 this year with an 8.4% decline, but has been rallying of late; This rally might finally have legs, given the coinciding surge in oil prices since the end of August; The industry is also seeing a rededication to discipline: instead of boosting spending to increase production, oil companies have been focusing on saving money, maintaining dividends, and even boosting share repurchases.
    - *Trader Extra:* Shares of **Mattel (MAT)** have fallen 52% so far this year, but could be a bargain for strong-stomached investors; Management is acknowledging the company's problems, targeting $650M in cost cuts through 2019, while starting initiatives to eliminate unpopular products and create new ones to boost sales; With all the bad news priced in, it's worth examining the turnaround potential that isn't.
  - *International Trader (Europe):* Investors should consider taking profits in Italian operator of highways and airports **Atlantia (ATL.IM),** shares of which have gained 23% ytd; There are concerns that Atlantia might end up overpaying for **Abertis (ABE.SM)** thanks to a bidding war with **Hochtief (HOT.GR)**, effectively destroying value; The Bank of England raised its key interest rate for the first time in a decade, hurting the pound and boosting the FTSE 100.
  - *International Trader (Asia):* South Korea is by far the cheapest market in Asia, and it boasts the strongest earnings tailwinds; Positive on **SK Hynix (000660.KS), Hotel Shilla (008770.KS),** and **Hana Financial Group (086790.KS).**
  - *Emerging Markets:* No longer a financial pariah, Argentina is set for an IPO boom, with some 16 companies set to go public; MSCI wants to see strong equity demand and improving liquidity before adding the country back to the MSCI Emerging Markets Index, a decision that could come in May 2018 and be implemented a year later.
  - *Current Yield:* Risk in high-yield bonds is on the rise, as evidenced by narrowing junk-bond spreads; Junk bonds have served as a proxy for equities in recent years, but they are starting to look a lot more like bonds as interest rate risk, not just credit risk, becomes part of the equation.
  - *The Striking Price:* Could **Amazon (AMZN)** buy **Kohl's (KSS)**? How to bet on the theory without risking much money; **CME Group (CME)** joins **CBOE (CBOE)** in saying it will list bitcoin futures.
  - *Commodities Corner:* Rising interest rates usually hurt gold prices, but a weak dollar could help the yellow metal buck that trend.
  - *Insider Transactions:* A list of recent purchases and sales of U.S. companies made by insiders.
  - *Up And Down Wall Street:* The GOP tax plan cuts corporate taxes and eliminates some key individual deductions, but a lot could change before the final bill; The tax package may have had some surprises, but Trump's nomination of Powell to succeed Yellen as Fed chair was as expected; So, too, was the FOMC's decision to keep short-term interest rates unchanged at its meeting last week.
  - *Streetwise:* Who will be the winners and losers of artificial intelligence? Tech support and outsourcing firms could be in trouble, while IBM (IBM), Alphabet (GOOGL), Nvidia (NVDA), Micron (MU), Microsoft (MSFT), Amazon (AMZN), Facebook (FB), Netflix (NFLX), Alibaba (BABA), Baidu (BIDU), JD.com (JD), and Tencent (700.HK) all stand to benefit.
  - *Technology Trader:* The rally has favored tech's biggest companies, but many of them have cash parked overseas; Don't neglect the upside on deserving, smaller companies; Positive mentions for Advanced Micro Devices (AMD), Impinj (PI), Everspin Technologies (MRAM), Ciena (CIEN), FireEye (FEYE), Ambarella (AMBA), Lattice Semiconductor (LSCC), CEVA (CEVA), and Cray (CRAY).
  - *Speaking of Dividends:* Five industrial companies with the financial strength to continue growing their dividends for the next several years: Cummins (CMI), United Technologies (UTX), Honeywell International (HON), Ingersoll-Rand (IR), Illinois Tool Works (ITW).
  - *Follow-Up:* Despite being embroiled in the Russia investigation, **Facebook (FB)** still looks like

a buy thanks to increasing demand and prices for ads, as well as new ad opportunities on the Messenger and Instagram platforms.

Reference Links:

- Barron’s

Industries: Unspecified, Construction Services, Misc. Capital Goods, Conglomerates, Recreational Products, Investment Services, Misc. Financial Services, Business Services, Hotels & Motels, Retail (Internet & Catalog), Retail (Department & Discount), Retail (Specialty), Communications Equipment, Computer Hardware, Computer & Internet Services, Electronic Instruments & Controls, Semiconductors, Software & Programming, Misc. Transportation
Primary Identifiers: 000660-KR, 008770-KR, 086790-KR, 2181-JP, 2412-JP, 4927-JP, 6861-JP, 700-HK, 7974-JP, 9984-JP, ABE-ES, AMBA-US, AMD-US, AMZN-US, ATL-IT, BABA-US, BIDU-US, CBOE-US, CEVA-US, CIEN-US, CME-US, CMI-US, CRAY-US, FB-US, FEYE-US, GE-US, GOOGL-US, HON-US, HOT-DE, INTC-US, TT-US, ITW-US, JD-US, K
Related Identifiers: 000660-KR, 008770-KR, 086790-KR, 2181-JP, 2412-JP, 4927-JP, 6861-JP, 700-HK, 7974-JP, 9984-JP, ABE-ES, AMBA-US, AMD-US, AMZN-US, ATL-IT, BABA-US, BIDU-US, CBOE-US, CEVA-US, CIEN-US, CME-US, CMI-US, CRAY-US, FB-US, FEYE-US, GE-US, GOOGL-US, HON-US, HOT-DE, INTC-US, TT-US, ITW-US, JD-US, KSS-US, LSCC-US, MAT-US, MRAM-US, MSFT-US, MU-US, NFLX-US, NVDA-US, PI-US, RTX-US
Subjects: Conjecture, Media Summaries, Barron's Summary, Published Reports