Barron's Summary
Saturday, February 03, 2018 10:21:00 PM (GMT)

- **To add this weekly email alert**, **click here**.
- **Cover**:
  - Barron's 100 Most Sustainable Companies: Barron's partners with Eaton Vance's Calvert unit to identify the 100 companies with the best business practices. Those that made the list returned an average of 29% last year, compared to 22% for the S&P 500 (link).
- **Features**:
  - **General Motors (GM)**: Barron's is positive on GM, which is set to report Q4 earnings on Tuesday. The giant automaker, which has won back its market-value lead over Tesla (TSLA), has been reporting strong profits of late, which it has been using to fund research into electric and autonomous cars. Even after gaining 18% in the last six months, GM is still the fourth-cheapest stock in the S&P 500 at just seven times forward earnings estimates. This leaves plenty of room for gains if the company can convince investors that it isn't a dinosaur. Shares could rise 35% this year (link).
  - Barron's spoke with Harry Markowitz, the nonagenarian Nobel Prize winner and father of modern portfolio theory. Despite his advanced age, Markowitz has 100% of his liquid assets in stocks, betting that the destruction caused by last year's hurricanes will be a boon for industries involved in reconstruction. He owns **Weyerhaeuser (WY), USG (USG), Corning (GLW), Caterpillar (CAT), 3M (MMM),** and **United Technologies (UTX)** (link).
  - **Spirit Airlines (SAVE)**: "Sizing Up Small Caps" is positive on Spirit Airlines, believing that the budget airline's extremely low cost insulate it from having to go head-to-head with big carriers in a fare war. Service disruptions and a labor dispute during the peak of last summer's vacation season have contributed to the stock's precipitous decline from more than $80 in late 2014 to $42 today. The belies the company's steady financial gains: revenue has risen 40% since 2014, while book value and operating cash flow have risen nearly 60%. Spirit also has a healthy balance sheet. With shares now trading for less than 12 times forward earnings, the stock represents both a good growth and value play long-term (link).
  - **Dell Technologies class V shares (DVMT)**: Continuing the narrative it began in last week's *Trader Extra* column, Barron's is positive on Dell Technologies class V shares, which track **VMware (VMW)** on a share-for-share basis. Concerns about Michael Dell's plans for VMware, which is controlled by his privately held Dell Technologies, have caused the class V shares to crater. They fell another 14% last week, and now trade at a 42% discount to VMware. While it's unclear exactly what will happen to the tracker under the deal scenarios reportedly being considered, the potential upside scenarios outweigh potential risks (link).
  - Barron's interviews Scott Minerd, a founding managing partner and global chief investment officer for Guggenheim Partners. He sees more upside for U.S. stocks before a recession arrives in late 2019 or 2020. He's also bullish on international stocks and active management, particularly in fixed income (link).
- **Columns**:
  - *The Trader:* The Dow, S&P 500, and Nasdaq fell 4.1%, 3.9%, and 3.5%, respectively last week, and it's safe to say that we're in the midst of a long-overdue correction; Ultimately, strong economic data suggests that this pullback looks more likely to be one to be bought, not sold; This may be unpleasant, but it's healthy.
    - *Trader Extra:* **Danaher (DHR)** fell after reporting strong earnings last Tuesday, as the science, health-care, and tech conglomerate failed to raise full-year guidance; However, the stock was resilient on Friday while the rest of the market fell; Attribute this to the company's admirable consistency and reliability.
    - *Trader Extra:* Healthcare stocks fell Tuesday on the news that **Berkshire Hathaway (BRK.A), Amazon (AMZN),** and **JPMorgan Chase (JPM)** were starting a medical cost-cutting venture; Most sector analysts saw this as an overreaction and suggested that clients buy into the weakness.
  - *International Trader (Europe):* The increasing frequency of data breaches, along with the EU's soon-to-hit General Data Protection Regulation, should boost demand for **Beazley (BEZ.LN)**, which insures companies in the event of cyberattacks; The company's valuation does not

reflect its impressive margins and huge potential growth in the cybersecurity market.
  - *International Trader (Asia):* **Hangzhou Hikvision Digital Technology (002415.CH)**, the world's largest maker of surveillance cameras, is currently the hottest play in the global security and surveillance sector, despite its controversial ties to the Chinese government; Hikvision will be a beneficiary of Trump's Mexican wall, regardless of whether or not its cameras get installed along it.
  - *Emerging Markets:* Eleven Asian countries have revived the TPP that Donald Trump rejected; The group could act as an effective counterweight between the U.S. and China; Two clear beneficiaries of the new pact are Vietnam and Malaysia.
  - *Current Yield:* Even with last week's big moves in the bond market, the yield curve remains pretty flat; Should investors still be worried about the yield curve inverting, something that has happened before each of the past seven recessions?
  - *The Striking Price:* Volatility rose as stocks declined, but the VIX finished Friday at 17, still below its long-term average of 19; Compared with at-the-money options, out-of-the-money puts and calls are trading near their highest prices since the financial crisis, meaning that investors are hedging their portfolios and buying upside calls.
  - *Commodities Corner:* Palladium futures have risen by more than 55% in 2017, prompting some automakers to consider replacing palladium in gasoline cars with platinum; This could result in a modest decline in demand for palladium, but a significant increase in demand for platinum.
  - *Up And Down Wall Street:* Friday's 666-point plunge in the DJIA was no Black Friday, and last week's losses must be measured against the perspective of the stock market's incredible run; The negative correlation between stocks and bonds appears to be ending.
  - *Streetwise:* Elon Musk's new pay deal at **Tesla (TSLA)** sets the wrong goals by emphasizing market cap over sustainable profits; Tesla shareholders should bank on another dilutive stock issuance.
  - *Technology Trader:* Apple's (AAPL) cash pile and Facebook's (FB) ubiquity give the tech titans a Teflon sheen; Intel (INTC) CFO Bob Swan does well articulating how his company's business is changing, admitting that margins will be lower, but numerous questions remain
  - *Speaking of Dividends:* 13 mega-cap companies whose dividend estimates for the current fiscal year have increased by at least 2% since July: Cisco Systems (CSCO), Texas Instruments (TXN), UnitedHealth Group (UNH), Oracle (ORCL), Comcast (CMCSA), 3M (MMM), AbbVie (ABBV), Boeing (BA), Union Pacific (UNP), Bank of America (BAC), Citigroup (C), Wells Fargo (WFC), JPMorgan Chase (JPM).
  - *Follow-Up:* After the market's sharp rise through most of January and last week's pullback, Barron's went back to three pundits who had the highest year-end predictions for the market in 2018 to see if their views remained intact; The short answer is yes: they see last week's pullback as "profit-taking and...healthy," and two of them actually raised their 2018 S&P 500 expectations in January; Credit the tax cut and strong Q4 earnings; With earnings rising, the market's P/E ratio hasn't changed much at 17.7 times.

Reference Links:

- Barron’s

Industries: Unspecified, Aerospace & Defense, Constr. & Agric. Machinery, Construction - Raw Materials, Conglomerates, Auto & Truck Manufacturers, Insurance (Miscellaneous), Insurance (Prop. & Casualty), Forestry & Wood Products, Money Center Banks, Biotechnology & Drugs, Healthcare Services & Facilities, Medical Equipment & Supplies, Broadcasting & Cable TV, Retail (Internet & Catalog), Communications Equipment, Computer Hardware, Computer Networks, Computer & Internet Services, Semiconductors, Software & Programming, Airline, Railroads
Primary Identifiers: AAPL-US, ABBV-US, AMZN-US, BA-US, BAC-US, BEZ-GB, BRK.B-US, C-US, CAT-US, CMCSA-US, CSCO-US, DHR-US, DELL-US, FB-US, GLW-US, GM-US, INTC-US, JPM-US, MMM-US, ORCL-US, SAVE-US, TSLA-US, TXN-US, UNH-US, UNP-US, USG-US, RTX-US, VMW-US, WFC-US, WY-US
Related Identifiers: AAPL-US, ABBV-US, AMZN-US, BA-US, BAC-US, BEZ-GB, BRK.B-US, C-US, CAT-US, CMCSA-US, CSCO-US, DHR-US, DELL-US, FB-US, GLW-US, GM-US, INTC-US, JPM-US, MMM-US, ORCL-US, SAVE-US, TSLA-US, TXN-US, UNH-US, UNP-US, USG-US, RTX-US, VMW-US, WFC-US, WY-US
Subjects: Conjecture, Media Summaries, Barron's Summary, Published Reports