

## Markets at a glance

### Trendspotter

**Signals** (click on links to obtain up to-date signal )

[Dow Jones \(DJ\)](#)

[S&P 500 \(SP\)](#)

[FTSE 100 \(X\)](#)

[DAX \(DY\)](#)

[£/US\\$ \(BP\)](#)

[US Dollar Index \(DX\)](#)

[Crude Oil \(CL\)](#)

[Gold \(GC\)](#)

[Coffee \(KC\)](#)

[Orange Juice \(OJ\)](#)

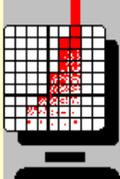
[Sugar \(SB\)](#)

[Wheat](#)

[Cotton](#)

[Rough Rice](#)

# The Insider Trader

Issue 83  March 2013

## Investing in Airlines – A good idea?

“If you want to be a millionaire, start with a billion dollars and launch a new airline.” – Richard Branson

One of the hardest industries to make money in has to be airlines. You have volatile fuel prices, unions, weather, terrorism, regulation, safety issues and a consumer that demands more and wants to pay less. Some years ago Warren Buffett tried his hand at airlines with US Airways and called it his biggest mistakes and made a substantial loss!

Yet against this dark background some airlines stocks have been soaring, pun intended. So what’s going on? Well I believe some airlines are in a “sweet spot” where costs are being managed extremely well and prices are being pushed up. After a few years of price wars you will find that ticket prices are going up whatever the adverts claim. I don’t see many rushing out to start a new airline so competition is decreasing and in fact

the opposite is going on with more consolidation and mergers, which reduces capacity. Airlines have become so good at managing capacity, it’s rare that you fly these days and see many empty seats. Also by using newer plans fuel consumption is being slashed.

Two of the best know UK low cost carriers [Easyjet \(EZJ\)](#) and [Ryanair \(RYA\)](#) are both near all-time highs. One stock that has caught my interest is based in the USA and that is [Spirit Airlines \(SAVE\)](#).

Spirit operates with a low cost model flying in the US, the Caribbean and Latin America regions, serving 48 airports. Because of its lean price model since 2007, it has managed to be profitable in the last 5 years, even during the period of fuel price volatility as well as economic recession. The average base fare was reported to be around \$77-\$85 in the period of 2009-

**Airlines ETF—FAA** Currently the ETF has 29 airlines with United Continental (UCL) being the biggest holding followed by Delta (DAL). No one can say for sure how long these happy days for this industry will continue but certainly the trend is better than it has been for many years.

FAA - Airline ETF - Weekly OHLC Chart



-2011. So it's very much a Ryanair of the US. The airline operates on an all airbus fleet, with the fleet of planes being less than 5 years old which is one of the youngest in the US.

The stock is up over 100% since it listed in 2011 yet the P/E is still reasonable on 15 coming down to 10. The balance sheet is strong and has plenty of opportunities to expand and has new A320 planes being delivered over the coming years. Bar any major disaster shares in Spirit have every chance to double again in the next 2 to 3 years.

**Airline ETF – (FAA)**

These days you can find an Exchange Traded Fund (ETF) for everything and the airline sector is no exception. So far the airline sector etf which trades on the AMEX exchange with the symbol FAA is up 20%. You see the factsheet here: <http://guggenheiminvestments.com/products/etf/faa>

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Back in the UK the old British Airways which is now known as International Consolidated Airlines

SAVE - Spirit Airlines Inc. - Weekly Candlestick Chart



(LSE:IAG) is also starting to show signs of life and is up 30% so far this year. IAG counts much more on business and first class travel which is closely tied with the global economy.

**Dow 14200 reached – what next?**

What seemed insane and impossible back in September 2011 when the Dow was 10700 has now been achieved. Of course we did not get for 10700 to 14300 all in a straight line so don't expect the next 3000 points to be easy but the overall trend and I talking years not weeks is still positive for the US. As stated in last month's newsletter the new US oil and gas finds will have a significant positive effect on the US economy and lower electricity prices are very important to growth. Shortly after writing the newsletter

\$DOWI - DOW Industrials - Monthly OHLC Chart



the CEO of Goldman Sachs, Lloyd Blankfein in a Bloomberg interview stated how important the new Oil & Gas finds are, go 10:30 in <http://bloom.bg/VT2dsW>

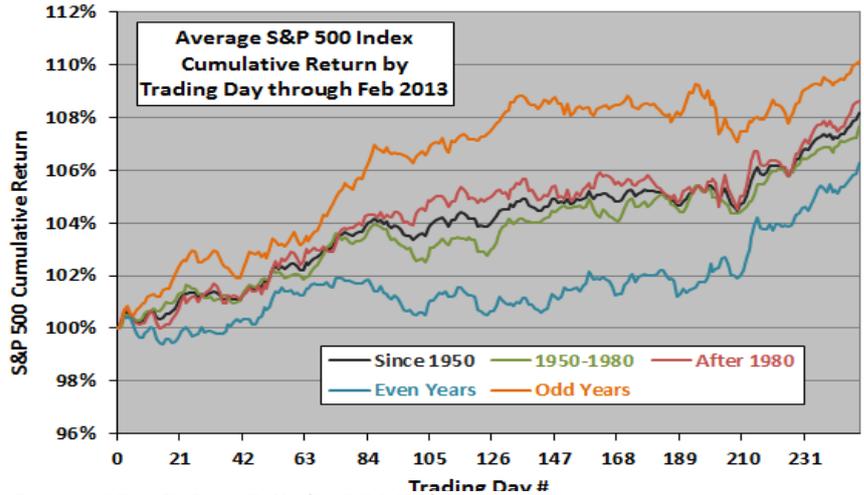
We remain in the seasonally bullish period until at least mid-April then we will go in to the slower summer months (as shown in the graph) but the world will not stop and we will still have opportunities both long and short however it would be foolish to think the big returns we have made so far this year can continue indefinitely.

**Breaking Up is profitable**

Back at my May 2012 seminar I talked about the power off spin offs and how a large company can break up into parts can often give more value. It is not an overnight process however over the last few years we have done very well with Expedia/Tripadvisor, Conoco Phillips/Phillips66 and Beam/Fortune Brands Home Security to name a few.

Two companies that have recent caught my eye are **Ingersoll Rand (NYSE:IR)** and **Meadwestvaco (NYSE:MWV)**.

**Ingersoll-Rand** is a diversified, global company that provides products, services and solutions to enhance the comfort of air in homes and buildings, transport and protect food and perishables, secure homes and commercial properties. IR-Ireland operates in four business segments: Climate Solutions, Residential Solutions, Industrial Technologies and Security Technologies. It generates revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include Club Car, Ingersoll-Rand, Schlage,



Thermo King and Trane. IR plans to spin off the security division, buy back \$2 billion worth of stock, and raise its dividend 31%, to \$0.21 per share. The announcement is a reaction to the activist stake taken by Trian Fund Management, the fund co-founded by Nelson Peltz. Trian owns about 7% of the company and has secured a seat on the board. I still see value here and one worth holding for the next 12 months, possible \$75+.



The second share has a connection in that Nelson Peltz has recently taken a stake which is Meadwestvaco (NYSE:MWV)

**MeadWestvaco Corporation (MWV)** is a global packaging company that provides packaging solutions to the healthcare, beauty and personal care, food, beverage, tobacco and home and garden industries. It other business operations serve the consumer and office products, specialty chemicals, forestry and real estate markets. MWV's segments include Packaging Resources, Consumer Solutions, Consumer & Office Products, Specialty Chemicals, and Community Development and Land Management. On December 30, 2011, it acquired Polytop Corporation, a company engaged in the design and manufacturing of dispensing closures serving the food and beauty and personal care packaging markets.

The stock has really done nothing for the last 10 years but has recently spiked up on news that Nelson Peltz has taken a stake and is likely to ask for the company to make moves at spinning off and maybe asking them to sell divisions and return cash to shareholders. It's hard to say what the upside is on this stock but the parts could easily fetch 30% or more than the current level and some of these divisions could be spun out as separate companies and unlock far better value. Your getting a free

MWV - Meadwestvaco Corp. - Monthly OHLC Chart



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