The Insider Trader

Issue 92 March 2014

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)

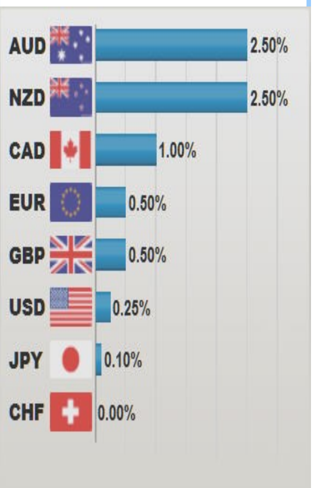
Orange Juice (OJ)

Sugar (SB)

Wheat

Cotton

Rough Rice



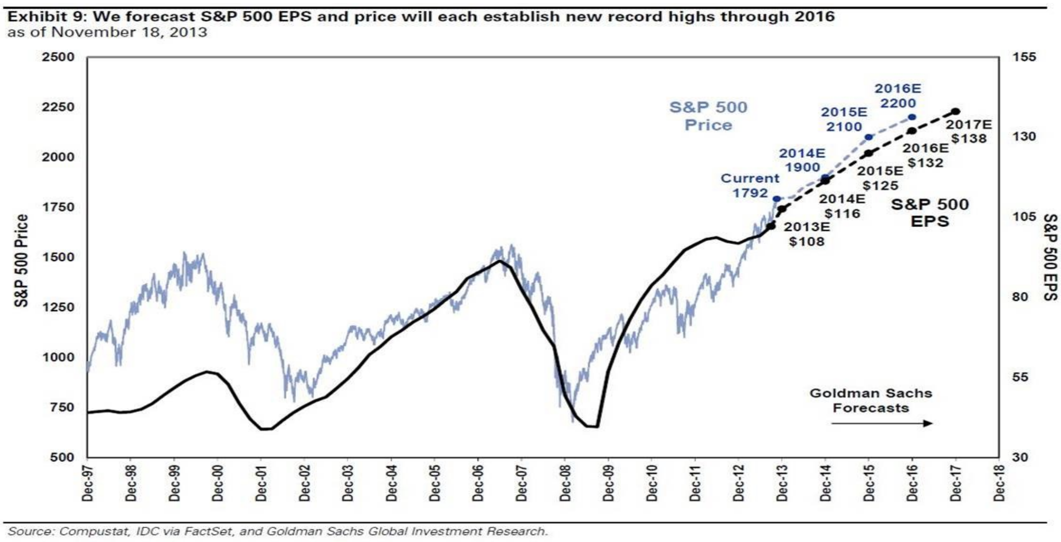
5 Years on in the Bull market - what next?

It's hard to believe that it is now just over 5 years since the US financial markets hit their crisis lows with the S&P500 hitting 662 and the Dow Jones 6450. The S&P500 is up 174% with many stocks putting in gains of well over 1000% since those dark days; **Las Vegas Sands (LVS)** is up 3700% and **Krispy Kreme Doughnuts (KKD)** up 1500% to name a few. We have also had a massive amount of takeover activity especially in the Biotech area and spin offs which have paid off handsomely over the last few years. The recent takeover of **BEAM** was made possible because Fortune Brands spun the company out and the remainder **Fortune Brands Home Security (FHBS)** has also done very well. The amazing run in **Tripadvisor (TRIP)** after it was spun out of **Expedia (EXPE)** gives you an example of the power of a spin off. (flashback 3rd May 2011 update were I said buy at $25!)

Financial stocks which were left for dead such as **Citigroup (C) Bank of America (BAC) AIG** were all bailed out, have paid back the US government and are in a much stronger position. The US housing market whilst nowhere near the peak has also found stability. Stocks with exposure to construction such as **USG (NYSE:USG)** which is Gypsum, **Terex (NYSE:TEX)** cranes and **Mueller Water (MWA)** all benefit from a stronger housing market. MWA was featured in the October 2012 newsletter.

Regardless of what you think of the Federal Reserve and the zero interest rates and money printing policies you cannot argue that financial markets are in a better place today than they were 5 years ago. A reminder that "betting against America" is

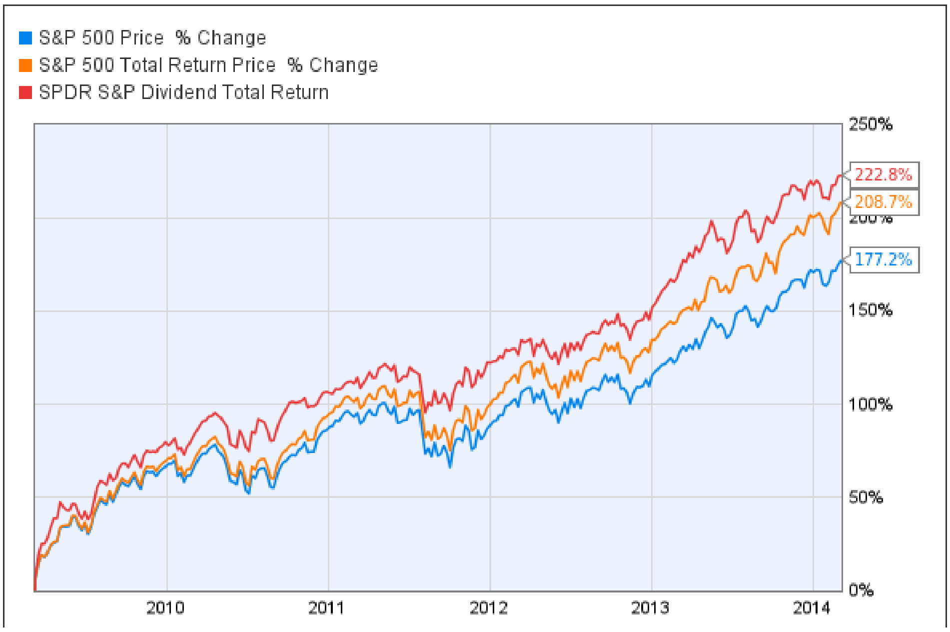
Below: Goldman Sachs forecast for S&P500 and Earnings Per Share. Looking for higher prices however more "normal" returns should be expected nearer to 7% to 10% a year not 30% for the S&P500.



not a wise investment and yes short term there has been and will be plenty of gut-wrenching plunges but over time my opinion is that financial markets will continue to move up. What should also be noted is the power of re-investing dividends, whilst the S&P500 is up over 174% over the last 5 years if we add in the dividends then this moves up to 220%. An ETF like SDY (NYSE:SDY) factors in dividends.

The question now after a near 35% a year annualized return and a 5 year bull market is, is there anything left? Well I think it would be foolish to expect the same returns again in the next 5 years, also 2014 is a midterm election year which historically are not that bullish for markets so the overall returns for the S&P500 are more likely to be 7 to 10% this year. A quick way to remember is that elections and mid-term election occur in even ending years.

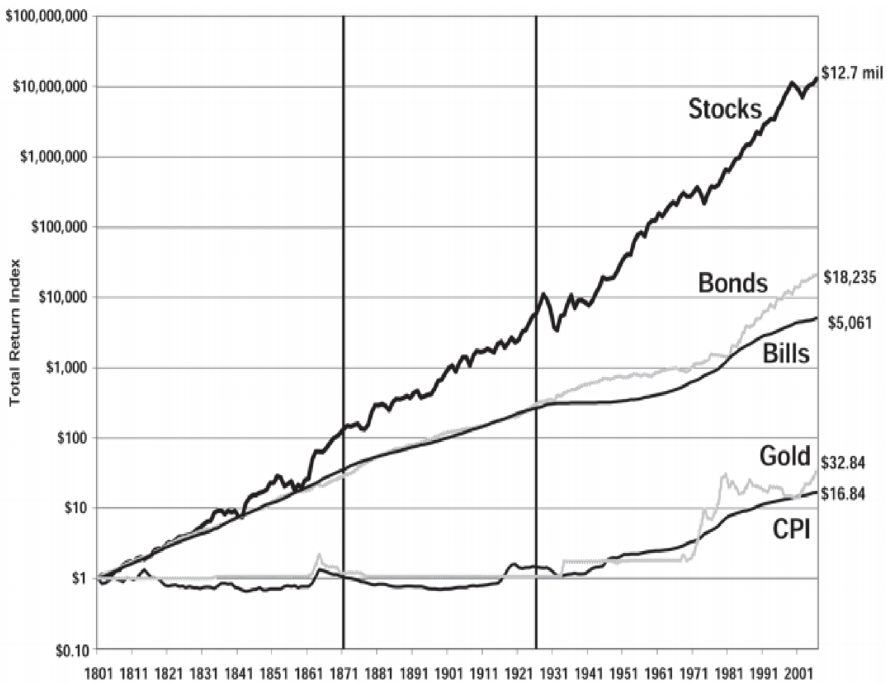
Of course, individual shares and special situations can yield far bigger gains and that is where the skill and opportunities will be in the next few years rather than just looking at the overall indices. <u>We can also look for short opportunities and as we move into the weaker summer months we could see a fairly sharp correction especially in some of the hyped up stocks</u> which would give us a way to make money via short spread bets and put options. Traditionally May to October is the weaker period for stock markets and with a mid-term election in November many may choose to take less risk until after the results (4th November 2014)



Above: 5 Years of the S&P500 note the better results when you factor in dividends the best results came reinvesting the dividends. Below: A very long term chart from 1801 to 2006 showing that even with all the crashes such as 1929 and 1987 STOCKS remain the best investment you will ever make long term.

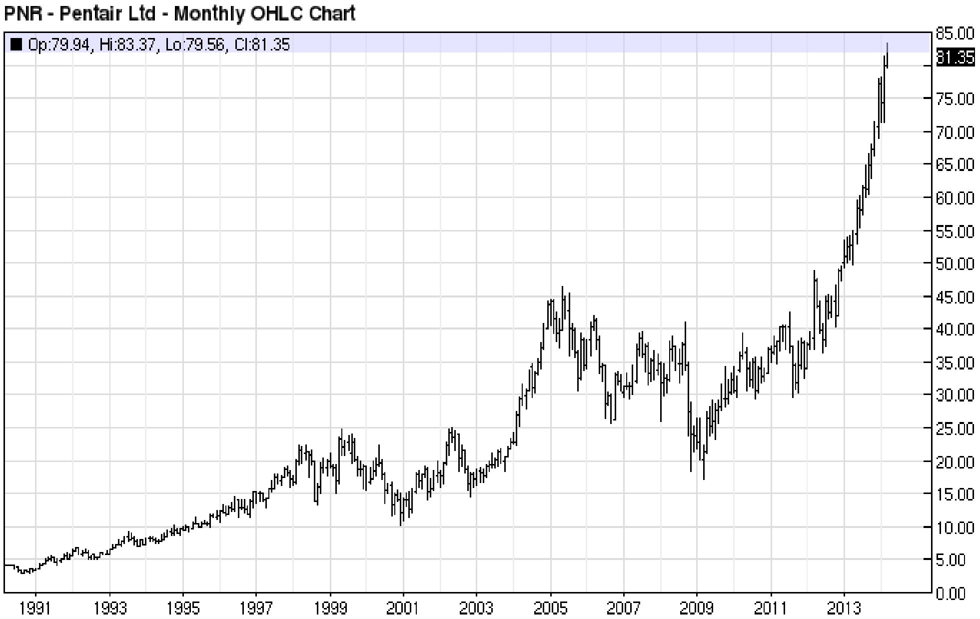
FIGURE 1–1

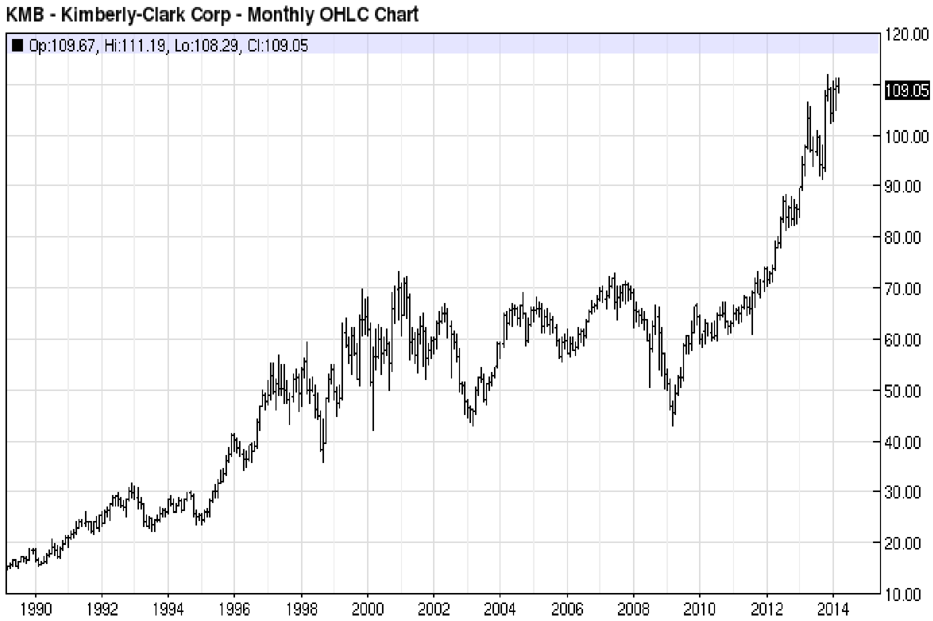
Total Nominal Return Indexes, 1802 through December 2006



I don't see interest rates on either side of the pond moving substantially higher in the next few years so returns on savings will remain low therefore stocks still remain the best place to be even with say a 7% to 10% annual return in an index fund your not going to get that in cash.

Areas that I still see opportunities in are **Healthcare and Pharmaceuticals.** As I have written about in the past the aging population will lead to substantially higher spending on healthcare and even though this sector has done very well there are still opportunities. **Financials and Homebuilders** still remain good value and industrial stocks which benefit from increased spending for capital expenditure also continue to do well. Whilst items like water pumps, elevators (lifts), heating controls may not be the most exciting of areas, stocks like **Honeywell (NYSE:HON) United Technologies (NYSE:UTX) and Pentair (PNR)** are all doing very well. PNR is a maker of pumps and valves for water treatment will benefit from purchase of Tyco Flow Control, which will enable Pentair to double its earnings over a 3-year period due to cost savings and reacceleration of commercial construction. On a side note **Tyco (TYC)** has been an amazing stock and the chart does not tell the true picture as ADT and **Coviden (COV)** which has since spun Mallinckrodt (MNK) all came out of Tyco. We are a bit dry on new spin offs one to watch year end will be **Kimberley Clarke (KMB)** best know for tissues and toilet rolls they also have a very successful healthcare business KC which is due to be spun off.





About: Kimberly-Clark Corporation, together with its subsidiaries, manufactures and markets personal care, consumer tissue, and health care products worldwide. It operates through four segments: Personal Care, Consumer Tissue, K-C Professional, and Health Care. The Personal Care segment offers disposable diapers, training and youth pants, swimpants, baby wipes, feminine and incontinence care products, and other related products under the Huggies, Pull-Ups, Little Swimmers, GoodNites, DryNites, Kotex, U by Kotex, Intimus, Depend, Plenitud, and Poise names. The Consumer Tissue segment provides facial and bathroom tissue, paper towels, napkins, and related products under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, and Neve names. The K-C Professional segment offers apparel, wipers, soaps, sanitizers, tissues, and towels under the Kleenex, Scott, WypAll, Kimtech, and Jackson Safety names. The Health Care segment provides surgical and infection prevention products for the operating room; and a portfolio of medical devices focused on pain management, respiratory, and digestive health under the Kimberly-Clark and ON-Q brands.

I featured the stock in my update 13th December 2011 back at the $70 level and we are currently at $110 and the company pays a reasonable dividend currently yielding 3% and was recently increased. They have done that now for 42 years in a row which makes them a solid dividend payer. If you don't already own it I think it is a fairly safe name to own with the bonus of the spin off of KC Professional happening towards the end of the year.

On November 14, 2013, Kimberly-Clark KMB -0.11% Corp (NYSE: KMB; Market Capitalization: $41.5 billion), a global health and hygiene company that supplies branded consumer products, announced that its board of directors has authorized management to pursue a tax-free spin-off of its health care business, K-C Health Care. KMB's management expects to make a final recommendation on the potential spin-off to the board of directors in the next several months. The company expects to complete the spin-off by the end of the third quarter of 2014. The spin-off would be structured as a tax-free distribution of 100% of the shares of the new company to the shareholders of Kimberly-Clark.