RAYMOND JAMES

Investment Strategy
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Investment Strategy: Revised

"Rescue Me"

"Rescue Me" is a song sung by Fontella Bass in 1965. The song's refrain is "Come on, baby, and rescue me. Come on, baby, and rescue me," a refrain that currently needs to be played on the Street of Dreams. I thought of the song while reading a story about the rescue of a 375-pound black bear here in Florida. It seems the bear wandered into a residential neighborhood and the wildlife officers attempted to sedate him in order to safely relocate him. The bear, however, went into a panic and ran into the water. As he swam further out, the tranquilizer began to somewhat take effect and he started to drown. Officer Adam Warwick was not about to let that happen. He jumped into the water and swam to the bear knowing it was a high risk move since the bear could kill him with one swipe of his claws. Undeterred, Adam grabbed the bear around the neck to keep his head above water and slowly began swimming towards shore. Amazingly, the bear seemed to know he was in good hands and relaxed. Upon arriving in shallow water the rest of the team showed up and placed the bear into the shovel of a front end loader, hoisting the bear into a truck to be taken back to the Osceola National Forest. Adam rode with the bear in the back of that pickup truck all the way to the forest, where the big guy was released and is believed to be happy and safe. You can see the episode here.

Similarly, the stock market needs to be rescued from the "bear" as the S&P 500 (SPX/2094.11), after a feeble rally attempt, has again retreated into the 2090 – 2100 support zone. Recall it was early last week when the SPX knifed through that support level, falling to an intraday low of roughly 2072 where a number of "finger to wallet" indicators registered extreme oversold readings. The result was Wednesday's sharp throwback rally (+236 Dow points), which wasn't anticipated, but nevertheless carried the SPX into the overhead resistance zone between 2110 and 2120. We did anticipate that level would cap the rally and said so in last Thursday's verbal strategy comments. To wit:

"[Wednesday's] Dow Wow used up a lot of the stock market's internal energy on a short-term basis. Still, it looks like there will be a muted upside follow through this morning, but I don't expect it to get very far. Somewhere between 2110 and 2120 for the SPX ought to be IT on a short-term basis, if it can even get that far. Next week, however, should be another story as the stock market's internal energy gets rebuilt." Well, Thursday's intraday "print high" was 2115.02, exactly in the middle of that resistance zone! I continued by stating, "This morning the preopening S&P 500 futures are flat on no real overnight news. So far this has been a bullish consolidation, but today looks to be sideways to down. Next week, however, should see higher prices."

That "sideways to down" comment proved to be quite an understatement as the senior index lost 140 points on Friday. Subsequently, I did what I normally do on such days. I called various portfolio managers (PMs) to talk about the markets and try to glean some investment ideas. One of the PMs I called was Mary Lisanti. Mary is a longtime friend, and a great growth stock picker, who only buys small cap growth stocks that are growing by at least 30%. She used to manage the AH Small Cap Growth Fund, which I own, but recently there has been a change in ownership. Now that same fund is titled The Lebenthal Lisanti Small Cap Growth Fund, although the ticker symbol did not change (ASCGX/$20.91). I have heard the name Lebenthal for decades and have always associated it with high quality people, but more of a municipal bond house than a stock firm. However, in talking to Mary I come to find out they have been an equity manager for years. The association with Lebenthal has permitted Mary's fund to become partners with Raymond James, but I digress.

Our conversation began with my question, "What do you like?" Mary responded that she likes a number of the home builders, believing business will strengthen in the back half of this year and really take off in 2016 (I agree). She also likes the repair and replace space, as well as technology. I said, "But your small cap universe is pretty expensive at a P/E, price-to-book, price-to-forward earnings, and a price-to-cash flow of between 1.5 to 2 standard deviations above the norm." Mary said while that's true for the aggregate indices, many small cap stocks are not all that expensive. I added, "Probably in a low earnings growth environment investors are willing to pay up for true growth and many of the small/mid-cap companies continue to deliver excellent earnings growth."

Her largest portfolio weighting is in Technology (~26%), her next largest weighting is in Healthcare (~24%), especially Healthcare Services. She thinks under Obamacare home healthcare stocks could once again become growth stocks. Somehow we got to talking about Raymond James' new Specialty Pharmaceuticals analyst, Elliot Wilbur, who Mary said is the

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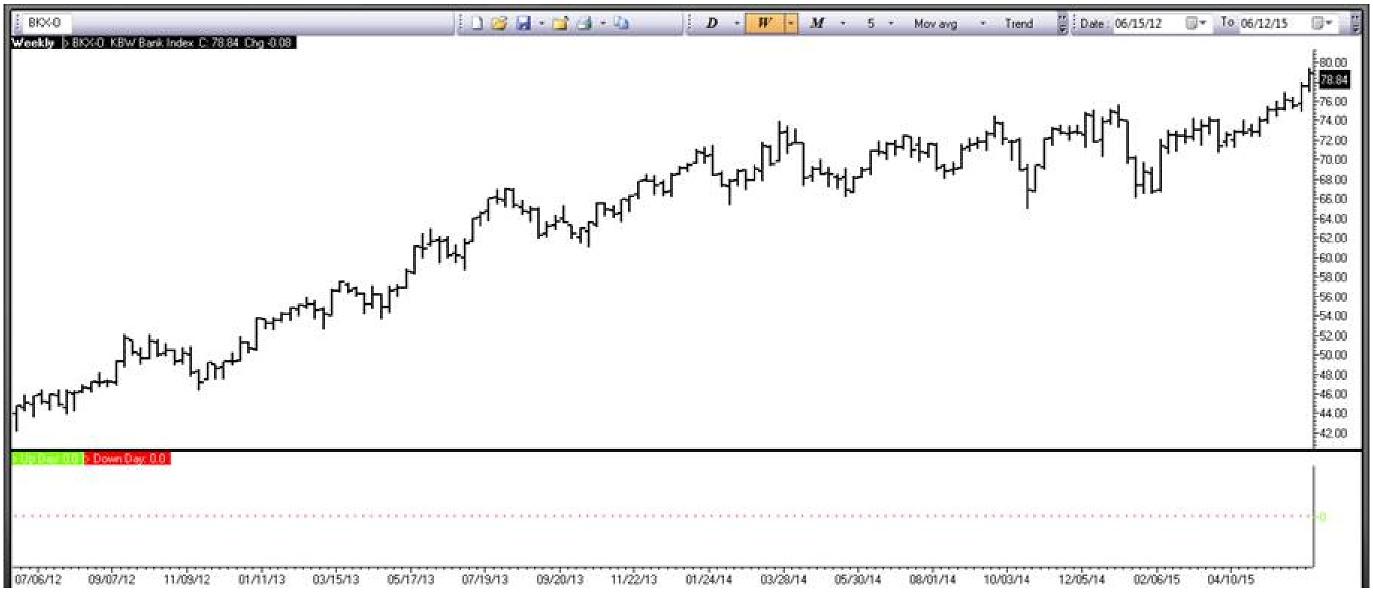
best analyst in the space. With that, I told her that I had recently bought shares in a company Elliot covers called Lannett (LCI/$56.95/Outperform), which is a stock that Mary also owns. Our analyst writes, “Lannett Co. Inc. is a fully integrated pharmaceutical company that develops, manufactures, and distributes generic and specialty branded pharmaceutical products in the U.S. The company is one of the oldest generic drug manufacturers in the U.S.” Mary adds, “LCI has a very experienced management team that copies drugs (generics) just as they are coming off patent. And, I think the FDA is becoming much better about fast tracking drug application now that Obamacare is pushing more people towards generics.”

The conversation ended with Mary saying, “There are a lot of very attractive little banks.” And, boy do I agree with that statement, having written about the KBW Bank Index (BKX/$71.39) breaking out to the upside from a Brobdingnagian base in mid-May (see chart on page 3). Of course one of the reasons for said strength is the steepening of the yield curve, which is very beneficial for banks. A few of the smaller capitalization names from the Raymond James research universe, which are positively rated by our fundamental analysts and screen well on my algorithms, include: C1 Financial (BNK/$18.77); Meta Financial (CASH/$42.31); and Yadkin Financial (YDKN/$20.00), which are all rated Strong Buy by the covering analyst; and Legacy Texas Financial (LTXB/$29.67) and Wilshire Bancorp (WIBC/$12.21), which are each rated Outperform.

The call for this week: Friday’s weakness is lingering into this morning with the preopening S&P futures down about 6 points at 6:00 a.m. as word spreads that the European Union is preparing for a “state of emergency” after the Greek debt talks collapsed. Consequently, all eyes will be focused on Greece this week, as well as words from the Fed. My work continues to suggest there should be some stabilization by mid-week, but that will likely depend on Greece. If this is a “selling stampede” they typically last 17 to 25 sessions with only one- to three-day pauses or rally attempts before they exhaust themselves. Today would be day 15.

Chart 1



Source: Thomson One

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