Investors Alley

August 2015 Vol. 1 Issue 8

Bret Jensen's Blue Chip Gems

The 'Black Monday Flash Crash' Gave Us a Gift

Fellow Investor,

The dull market that has been stuck in a historically narrow trading range for most of 2015 has gone poof in the blink of an eye in August. Investors have been treated to the most volatile month for equities since September 2011 when the market was being wracked by new worries in Greece and the end of "QE2" in June of that year. As we go to press, this volatility has resulted with a week to be remembered. After two big down days to begin last week, Wednesday and Thursday brought massive rallies that took the Dow up some 1,000 points in just two days.

In This Issue

Last week, investors watched the volatility index triple from the lows of the prior week. So what will the upcoming month bring? September is traditionally a worrying one for investors and historically one of the poorest performing months of the year. I would expect volatility to persist as we begin third quarter earnings warning season and investors await anxiously to see whether the Federal Reserve will follow through and actually raise interest rates for the first time since 2006. I believe speculation on this will dominate commentary for the first half of the month, only adding to the volatility.

China will continue to be a focus area for investors in this upcoming month. The Middle Kingdom needs to quit being the roller coaster it has been for the market over the past few weeks for equities to stabilize. Having five percent daily moves in Chinese equities is not good for the volatility of global markets. We also need some proof that the Yuan will not decline further which would add additional pressure to the export led economies of Asia such as Japan and Korea.

China definitely took a toll on our chip stocks this month along with Macau driven **Las Vegas Sands (NYSE: LVS).** Even mighty **Apple (NASDAQ: AAPL)** was not immune as concerns around China pushed it down some 20% from recent highs. The stock has recovered some recently after the company commented it is still seeing robust iPhone demand in China.

Interest rates dropped significantly for most of the month on a flight to quality. 10 year treasury yields went under two percent at one point during the month. They started to move up again towards the end of the month which buoyed the bank stocks in our portfolio as this is a key factor in net interest margin spreads for financial institutions.

I would also like to see some stability in the commodity and energy complexes even as we have no energy or commodity stocks in our portfolio. This would confirm global economic growth is not falling off a cliff. More importantly, it would lessen the pressure on the economies and currencies on commodity based countries like Brazil, Russia, Indonesia, Canada and Australia.

I also believe if we continue to see low energy and commodity prices we will have additional bankruptcies and restructurings in the domestic oil patch with a continue cascade of layoffs of highly paid personnel in the energy sector. In addition, additional capital expenditure cutbacks like the $1.6 billion budget decrease announced by **Freeport McMoRan (NYSE: FCX)** last week is detrimental for business investment flows into the global economy. This is hardly good for domestic job growth either as the company will reduce its U.S. workforce by 10%.

Hopefully we see signs in September that global growth is stabilizing while domestic growth continues to be strong like in the second quarter and not weak like in the first. This month we are adding a large biotech concern that should be able to continue to churn out solid revenue and earnings growth despite the challenging global economy.

If you ever have a question or comment you can reach me at bret.jensen@investorsalley.com.

Thank you and Happy Hunting.

Bret Jensen
Editor
Bret Jensen's Blue Chip Gems

P.S. I will be hosting a webinar coming up soon titled 6 Easy Steps to Finding Biotech Stocks Before They Get Acquired. In the video premier I will detail my exact strategy for booking huge returns in the biotech sector, and, in turn, will teach you how to start discovering your own massive returns by sharing my successful strategies developed over my decades of investing in the lucraticve biotech sector.

I hope to see you there.

Click here to reserve your spot.

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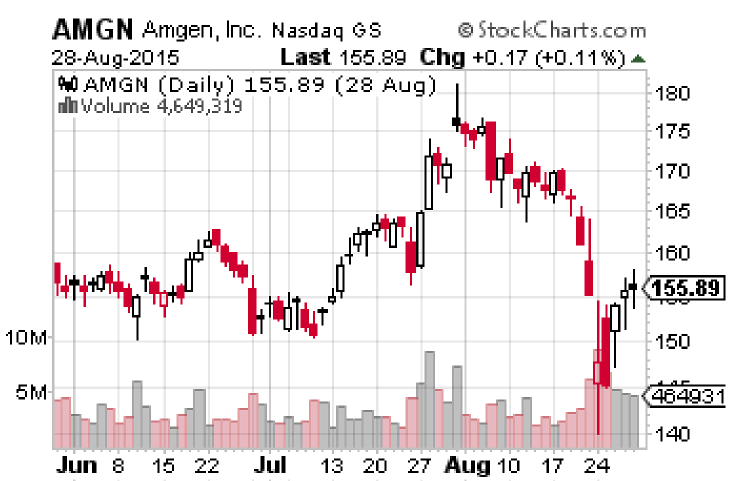
Amgen

We are adding another large cap biotech stock to the Blue Chip Gems portfolio. There are a few key reasons we are overweight the sector. It is one of the few industries that can continue to churn out revenue and earnings growth despite an increasingly challenging global environment. Valuations were reasonable before the recent volatility in the market during August that created even lower entry points and more attractive values.

We are throwing in our chips this month with one of the original biotech pioneers, **Amgen (NASDAQ: AMGN).** This California based biotech concern has been a public company for more than three decades and produces over $20 billion annually in top line revenue. Subscribers to Biotech Gems will recognize it as one of the core positions in that portfolio as well. Given its consistent growth, attractive valuations, and solid dividend yield Amgen is right at home in the Blue Chip Gems portfolio as well. The case for owning Amgen as an investment is actually more attractive now than it was early in July when it became part of my Biotech Gems portfolio. The recent market rout has brought down the price some despite recent quarterly results that easily beat top and bottom line expectations.



In addition, the FDA just approved its new class of cholesterol lowering drug Repatha which should produce some $2 billion in annual sales by 2020.

Amgen has established products, a deep pipeline, a strong balance sheet, and a reasonable valuation as well. Although no longer producing blockbuster growth, Amgen is still delivering solid mid-single digit sales increases translating into better earnings growth. It even pays a two percent dividend yield and I expect dividend payouts will continue to go up in line with earnings growth in the future. The stock is offering a solid entry point after declining some $25 a share from a 52 week high earlier in the year and currently goes for slightly less than $155.00 a share. Let's take a deeper look at this icon of the biotech industry.

Core Products:

Amgen's main products include Neupogen which stimulates neutrophil (white blood cells that defend against bacterial infection) production in cancer patients whose natural neutrophils were destroyed by chemotherapy. Combined with Neulasta, a long-acting white blood cell stimulant, this franchise produces almost $6 billion in annual global sales. Next up is Enbrel which is approved to treat rheumatoid arthritis (RA), psoriatic arthritis, and chronic plaque psoriasis. In late 2011, Enbrel was issued a new patent, which extends to 2028. Enbrel was acquired through the 2002 purchase of Immunex and has global sales approaching $5 billion annually.

Rounding out the company's core product portfolio is Epogen which is a genetically engineered version of human erythropoietin (EPO) which has annual sales of over $2 billion even if it has been hampered by Medicare pricing for dialysis patients. The company also owns Aranesp, a recombinant protein that stimulates the production of red blood cells in predialysis and dialysis patient and does just under $2 billion in global sales.

AMGN launched denosumab "Prolia" a few years ago for treatment of post-menopausal osteoporosis and for prostate cancer patients with bone loss due to hormone ablation in both the U.S. and Europe. This compound is already over $1 billion in annual sales and is growing over 30% year-over-year as of the last reported quarter. The company has several other drugs that do up to $1 billion a year in revenues as well constituting a very well balanced portfolio of products.

Remaining 2015 Milestones

Clinical Program	Indication	Milestone
Repatha™ (evolocumab)*	Dyslipidemia	Global regulatory reviews
Kyprolis® (carfilzomib)	Relapsed multiple myeloma	Global regulatory reviews
Talimogene laherparepvec	Metastatic melanoma	Global regulatory reviews
Brodalumab†	Moderate-to-severe plaque psoriasis	Global submissions
AMG 416	Secondary hyperparathyroidism	Global submissions
AMG 334	Episodic migraine	Phase 3 initiation
Omecamtiv mecarbil‡	Chronic heart failure	Phase 2 data

Pipeline:

Amgen has a robust pipeline with 16 compounds in Phase III trials that could accelerate growth and support a resilient, but largely mature, drug portfolio. There are some exciting milestones on the horizon. Amgen is one of the few companies that is almost ready to launch their PCSK9 inhibitor "Repatha" into this market, subject to regulatory approvals. PCSK9 inhibitors are a new more effective class of cholesterol drugs. This could easily be a niche that produces $10 billion to $15 billion in annual sales in a few years with several products competing for market share. Corlanor was approved in April to reduce the risk of hospitalization for worsening heart failure in patients with chronic heart failure. This is the first new heart failure medicine to the market in the U.S. in almost a decade. The company believes up to one million patients are candidates for this treatment.

Kyprolis recently delivered impressive results showing a doubling of progression free survival versus bortezomib in relapsed multiple myeloma patients. The compound is currently under accelerated review in both the United States and Europe for multiple myeloma patients who have relapsed. The drug is already approved for some conditions of multiple myeloma and showing strong growth.

Amgen received approval for BLINCYTO targeting acute lymphoblastic leukemia earlier this year and is rolling out the product. The launch of its new on-body injector for Neulasta is going very well with positive feedback from healthcare providers. These are some of the key products within the company's pipeline or just launched. The rest of 2015 has several key milestones upcoming for Amgen.

Biosimilars:

As can be seen from the chart below, Amgen has several late stage biosimilar products that will come to market over the next few years. Both the company and S&P believe this line of business can generate upwards of $3 billion annually in approximately five years. This would represent almost 15% of the company's current overall revenue and is an important and developing part of Amgen's growth story.

Amgen Biosimilars Have the Potential to Deliver $3B+ in Annual Revenue

	Status	Originator Worldwide 2014 Sales*
ABP 501	Phase 3 complete (RA and PsO)	HUMIRA® ~ $13B
ABP 980	Phase 3 breast cancer	Herceptin® ~ $7B
ABP 215	Phase 3 NSCLC	Avastin® ~ $7B
ABP 710	Phase 1	REMICADE® ~ $9B
ABP 798	Clinical ready	RITUXAN® ~ $8B
ABP 494	Process development	ERBITUX® ~ $2B
Molecules #7–#9	Process development	~ $7B
Total		~ $52B

Balance Sheet & Analyst Commentary:

The company has a solid balance sheet and recently added another $2 billion to its stock buyback authorization. Amgen also just increased its dividend payout by 30% earlier this year and I expect the company will continue to use its increasing cash flow to reward shareholder both by stock buybacks and increased dividends. Amgen is also in the middle of a significant restructuring to streamline operations and maintain/improve margins.

Analyst support has been quite positive of late. Three analysts have reiterated Buy ratings over the past three weeks since earning results came in above consensus with price targets in the range of $190.00 and $195.00 a share. Most analysts cite Amgen's upcoming launches/approvals and pipeline as key factors in their buy ratings and price targets. The median price target by the 15 analysts that cover this biotech concern is $187.00 a share.

Valuation & Conclusion:

As can be seen from the analysis above, Amgen is an established player in the biotech space with a healthy combination of established products, just launched compounds, a comprehensive pipeline and soon to be growing presence in biosimilars. Revenues should continue to increase in the low to middle single digits year-over-year for years to come.

The company earned $8.70 a share in FY2014 and is on track to post approximately $9.75 a share in profit in FY2015. The current consensus calls for $10.50 to $11.00 a share in the black in FY2016. At its current stock price of around $155.00 a share, AMGN sells for 14.5 times those forward earnings. This is a slight discount to the overall market multiple and a discount that is not warranted given the consistency of Amgen's growth, its pipeline, strong balance sheet and two percent dividend yield.

Recommendation: Buy AMGN up to $160.00 a share.

Position: Long AMGN

Portfolio Update

As noted in Market Commentary, August was the most volatile month for domestic equities in almost four years. Last week stocks had three to five percent moves during each of the first four trading sessions of the week before calming down somewhat on Friday. Many old time floor traders said the action reminded them of just before Black Friday in October 1987. One example of the extreme volatility last week was our holding **Celgene (NASDAQ: CELG).** This biotech juggernaut gapped down in the first 15 minutes of trading Monday to touch $93.00 a share before ending the day above $110.00. At the end of the week, the equity was back up to $123.00 a share.

After the sell-off in August, only the NASDAQ is managing to hold on to miniscule gains for the year. Both the Dow Jones Industrial Average and the S&P 500 are now sporting losses in the low mid-single digits for 2015. With volatility on the rise as we go into the historically challenging month of September, it could be an interesting end to the third quarter.

China was not only one of the key triggers of the market decline during August as growth decelerates sharply there but impacted several of our holdings. This slowdown in demand is certainly one of the key reasons the Philadelphia Semiconductor Index entered bear territory in July and accelerated its losses in August. This has created substantial headwinds to our holdings of **Micron Technology (NYSE: MU)** and **Qualcomm (NASDAQ: QCOM).** However, we should see better performance as we enter the much stronger holiday-driven fourth quarter. Micron also just launched a new product with partner **Intel (NASDAQ: INTC)** that could substantially increase its market share in the NAND space over time.

Obviously given the importance of Macau, **Las Vegas Sands (NYSE: LVS)** has been under pressure. However, we finally saw a month over month rise in traffic in Macau in July so hopefully brighter horizons are around the bend. In the meantime we will be happy to collect our over five percent dividend yield while waiting for business on the gambling enclave to improve. Even **Apple (NYSE: AAPL)** has had a nice buyable pull back. Given recent comments from the CEO this week, the concerns about Chinese demand for iPhones is unwarranted and I expect a solid upcoming earnings report in October.

The fall in yields for most of the month which had the ten year treasury yield at under two percent at one point in August put our financial positions under pressure. However, yields started to rise again late in the month with the ten year treasury yields again approaching 2.2%. This buoyed our financial holdings and they should continue to do well as interest rates gradually rise over the next few years.

Ending on a brighter note, **Foot Locker (NYSE:FL)** posted stellar results when it reported earnings late in the month. The retailer easily beat both top and bottom line consensus with comp store sales up almost 10% year-over-year. If it wasn't for the surge in volatility in the market the stock would have posted a more significant rise.

As always, if you have a question about our portfolio holdings or how they fit the strategy just send me an email at bret.jensen@investorsalley.com.

Current Portfolio

Company	Entry Date	Entry Price	Recent Price	Yield	Returns	S&P 500 Comp.
Amgen (AMGN)	08/28/15	$155.89	$155.89	1.9%	N/A	N/A
Bank of America (BAC)	07/28/15	$17.88	$16.36	1.2%	-8.5%	0.2%
Celgene Corp. (CELG)	06/26/15	$117.92	$124.04	-	5.2%	4.1%
Blackstone Group (BX)	05/18/15	$43.64	$35.67	8.0%	-18.3%	-0.6%
Qualcomm (QCOM)	04/15/15	$68.46	$57.45	3.0%	-16.1%	-0.6%
Capital One (COF)	04/15/15	$82.82	$77.32	1.8%	-6.6%	-0.6%
Express Scripts (ESRX)	03/18/15	$83.29	$84.46	-	1.4%	-0.3%
Foot Locker (FL)	03/18/15	$61.17	$71.62	1.3%	17.1%	-0.3%
AbbVie (ABBV)	02/13/15	$58.05	$63.98	3.0%	10.2%	-0.2%
Valero Energy (VLO)	02/13/15	$58.60	$59.00	2.5%	0.7%	-0.2%
Gilead Science Inc. (GILD)	01/16/15	$100.71	$107.78	0.4%	7.0%	3.7%
Micron Technologies, Inc. (MU)	01/16/15	$28.99	$15.96	-	-44.9%	3.7%
Apple Inc. (AAPL)	01/16/15	$105.99	$113.29	1.8%	6.9%	3.7%
JPMorgan Chase & Co. (JPM)	01/16/15	$55.93	$64.13	2.5%	14.7%	3.7%
Las Vegas Sands Corp. (LVS)	01/16/15	$54.89	$47.36	4.9%	-13.7%	3.7%

Notes:

Entry price is determined by the last "Close" price at the closing of the market on the day before publication. Recent price is determined by the last "Close" price at the closing of the market on the day before publication; most recent update: 08/28/15. Returns is share price appreciation or depreciation between entry price and recent price. S&P Comp. represents the returns on the S&P 500 Index from the point of entry of a stock listed above through the recent price and is meant to provide a comparison to the overall small cap stock market as comprises that index.

This is not real-time data and should not be interpreted as such.