Investors Alley
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Bret Jensen's Blue Chip Gems

Sticking With a Market Leader This Month

Fellow Investor,

There is little good to say about the market right now. Equities are heading to their worst quarter in four years. Stocks are down significantly since their recent highs in late July. August was the worst month for equity performance in many years, and September has been especially volatile since the Federal Reserve once again put off its first interest hike since 2006, citing concerns about waning global growth.

In This Issue

Even though second quarter GDP was revised up last week to a robust 3.9%, no one believes this type of economic activity will last. It is a very bifurcated market right now that is seeing multinationals like **Nike (NYSE: NKE)** thrive while **Caterpillar (NYSE: CAT)** continues to see sales declines and had to announce another deep layoff notice last week.

Many sectors of the market are in their own bear markets. Energy and commodity stocks continue to get routed. Emerging markets are getting pasted and are my pick for a "black swan" should one appear while other eyes are focused on the strong dollar, Europe and China. Brazil, the largest economy in South America by far, is in a deep funk thanks to the collapse of commodity prices, corruption, and political ineptitude. Economic activity is contracting, inflation is high, and the central bank has to keep interest rates elevated thanks to the collapsing currency, the "real," which has lost more than half its value against the U.S. dollar over the past year. Elsewhere, Venezuela is on the cusp of a complete collapse, Argentina is well, Argentina, and Colombia is slowing down significantly thanks to falling oil and natural gas prices.

Healthcare, which has been a leader in the market throughout 2015, gave back almost six percent of its gains last week. The biotech sector is now officially in its own bear market after the Nasdaq Biotechnology Index tumbled 13 percent in the week, its worst week since 2011. The rout was sparked by a tweet from Democratic presidential front-runner Hillary Clinton suggesting about "price gouging" in the market for prescription drugs as she tries to stem the tide of a self-avowed socialist who is rising in the polls for the Democratic nomination.

Investors can take consolidation that large cap growth names are holding up better than higher beta sectors like small cap stocks which fell another 3.6% last week. Volatility as measured by the VIX is spiking. The gauge has closed above 20 for 25 straight days, the longest stretch since January 2012.

On the bright side, housing activity remains at the highest levels in many years and U.S. domestic auto demand is strong. In addition, the recent decline in the markets are providing lower entry points as we continue to build our optimal Blue Chip portfolio. This month we add an emerging biotech and biopharma powerhouse that has used strategic acquisitions to become a giant in the industry and whose shares are down more than 15% from recent highs thanks to the turmoil in the market.

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

Allergan: A Great Value After the Pullback

The carnage in the biotech and biopharma sectors over the past couple of weeks has caused considerable anxiety to many investors as this sort of plunge has not been seen in these sectors in quite some time. To be more precise, we have not seen this type of action in this area of the market since early March of last year. Back then, over a six to eight week period, large cap growth names in the sector sold off some 20% to 30% before bottoming. Small cap concerns were hit even harder as many, many names dropped 50% to 70% simply due to violent shift in investor sentiment.

However, soon after bottoming the sector soon began another ascent and has been a market leader for more than a year before this latest swoon. Such is the nature of high beta sectors of the market. We are taking advantage of the recent pullback to add another Blue Chip Gem from this sector of the market. Our new holding will be in **Allergan (NYSE: AGN)** that has used a series of acquisitions to become a major player in the industry in a few short years.

Business Model:

Allergan has a unique business model in the industry growing primarily via acquisitions. It was formerly known as Watson Pharmaceuticals a few years ago before acquiring Swiss generic drug maker Activis in 2012 and taking its name. In 2013 it bought out Warner Chilcott followed by the purchase of Forest Laboratories in 2014. Early this year the company bought Allergan in its biggest acquisition to date and took that company's moniker as its own. This transaction created one of the top 10 global pharmaceutical companies by sales revenue. The firm has also made myriad smaller acquisitions over this time frame as well.

The new Allergan has developed a very successful playbook over the years integrating these rapid fire acquisitions. Management cuts operational costs significantly as well as R&D while achieving economies of scale by folding new products into the portfolio sold by its global sales force. As importantly, Allergan uses its overseas domicile to greatly lower its overall tax rate compared to U.S. based competitors. Before this series

of mergers the company made just over $2.00 a share in earnings in 2011. This year earnings per share should be approximately $18.00 a share. The stock price has reflected this huge surge of earning growth over the past several years.

Product Portfolio:

As the result of this series of mergers and acquisitions Allergan has grown into an industry giant. The company has manufacturing facilities in 30 countries around the world and the stock has a market capitalization north of $100 billion. The firm should also do over $20 billion in global sales in fiscal 2015.

Allergan's current product portfolio consists of over 40 branded specialty drugs primarily in key therapeutic categories including: Dermatology and Aesthetics, Central Nervous System, Eye Care, Women's Health and Urology, Gastroenterology and Cystic Fibrosis, and Cardiovascular disease and Infectious disease.

The company's generics portfolio now features more than 1,000 generics, branded generics, established brands, and OTC products. Allergan used these mergers to become the third largest manufacturer of generics in the United States. The company also owns Anda, the country's fourth largest generic drug distributor.

Game Changing Move:

In late July and right near the recent top in the market for biotech and biopharma stocks, Allergan announced it would sell its generic business to the largest generic drug maker in the world, **Teva Pharmaceuticals (NASDAQ: TEVA)**. Allergan will receive just under $34 billion in cash along with just under $7 billion in stock of Teva; which is approximately 10% of the outstanding float. The deal is expected to close in early 2016.

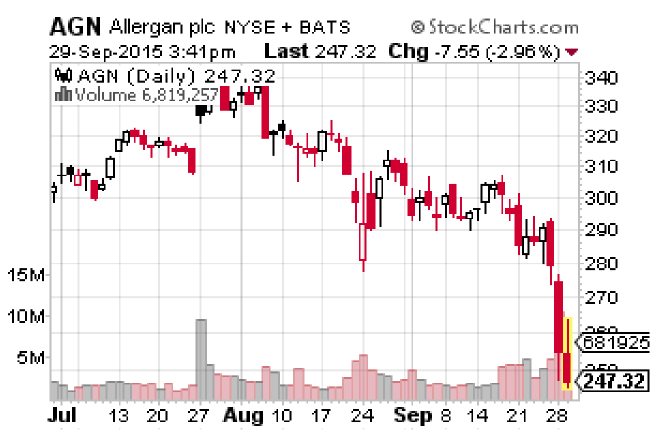
The deal will allow Allergan to concentrate on its branded and specialty drug business. This side of Allergan has faster growth and higher margins. As well, it should significantly boost the company's return on equity and shareholder value. I expect the company to use some of the funds to pay down some of the debt it has took on to finance its recent series of acquisitions over the past few years while also making additional purchases of strategic branded and specialty drug makers.

The timing of the transaction could hardly have been better on two fronts. Not only did Allergan sell its generics business right at the top of the market, if the downturn in biotech and biopharma stocks does not reverse over the next few months, it will be able to use some of the proceeds to make additional acquisitions at lower prices than what would have been available earlier this summer.

Political Concerns Will Fade:

A good portion of the recent sell-off has been triggered by presidential candidate Hillary Clinton tweeting about drug price "gouging" followed by a subpoena of records from a competitor of Allergan's by House democrats Monday alleging the same concerns. This should be taken as nothing more than election driven rhetoric that happens every four years.

Other than death and taxes, nothing is more certain than Democrats trying to scapegoat the drug industry before an upcoming election. This has been happening since I started investing in these sectors over two decades ago and one reason pharma stocks delivered such outstanding performance in 1995 after Bill Clinton's midterm debacle in late 1994. These politically driven declines have historically been great times to pick up these names on the cheap. I see nothing that will be different this time.



Valuation & Outlook:

The sell-off in the healthcare and biotech sectors has caused the stock of Allergan to pull back approximately 25% from its recent highs in late July. The company slightly raised forward earnings guidance when the deal with Teva was announced. Allergan is tracking towards approximately $18.00 a share of profits this year. With the recent decline, the stock goes for roughly 14 times this year's earnings. This is a discount to the overall market despite Allergan's clearly superior growth prospects.

Once the deal with Teva closes over the next six months, Allergan will be able to use the proceeds to further drive growth by making additional strategic and synergistic acquisition lower its debt profile. Both events should be rewarded by the market. Allergan has proven its strategy can create enormous shareholder value over the past five years. I see no reason the company will not continue to deliver above average growth and returns to shareholder in the years ahead.

The median price target of the 17 analysts that cover the company is $375.00 a share. This is more than 45% above the current price of the stock at $255.00 a share after the big decline in biotech and biopharma sectors over the past few weeks. At this low entry point, investors should garner many quarters and years of outperformance from this new Blue Chip Gem.

Recommendation: Buy AGN up to $280 a share.

Position: Long AGN

Portfolio Update

As noted at the beginning of this issue, it is hard to find much that is positive in the direction of the stock market recently. The major indices are heading for their worst quarterly performance in four years and the Federal Reserve punted on interest rates once again due to their concerns around the deceleration of global growth. This decision was made despite a domestic economy that grew nearly four percent in the second quarter and ended up adding more uncertainty to the market. I was hoping the central bank would lift rates off of zero, both as I think we are overdue for the first rate hike since 2006 but also it would have provided some confidence in the economy. In addition, it would have helped buoy some of our financial holdings such as **JP Morgan Chase (NYSE: JPM)**.

Presidential candidate Hillary Clinton injected her own uncertainty into equities with her tweet and follow up campaign promises around drug price "gouging" which tanked both the healthcare and biotech sectors last week. Both of these areas have been market leaders over the last year. However, with this pullback the biotech sector is now in bear market territory with an over 20% decline from recent highs in late July.

Obviously this has negatively impacted our healthcare and biotech holdings such as **Express Scripts (NASDAQ: ESRX), Amgen (NASDAQ: AMGN)** and **Gilead Sciences (NASDAQ: GILD).** However, subscribers should keep two things in mind. First, the recent rhetoric around "controlling" drug prices is typical election driven drivel that has little to no chance of getting implemented even if Mrs. Clinton reaches the White House. The opposition party will still control the House of Representatives and has at least a 50/50 chance of being in the majority in the Senate as well.

More importantly, these concerns are not nearly as impacted by slowing global growth as other sectors of the economy like Industrials and Technology. The recent declines of these stocks have made attractive long term growth plays even cheaper. I have added some new money to each incrementally over the past week or two. It is one of the few areas of the market I have deployed new capital into as I am concerned about the market navigating through this recent inflection. It is also the reason we are adding another healthcare holding to the Blue Chip Gems portfolio this month.

Chip stocks are in their own bear market thanks to falling growth rates in most of the world as well as declining PC sales. This has impacted our holdings of **Micron Technologies (NYSE: MU)** and **Qualcomm (NASDAQ: QCOM)**. About the only technology product that seems to be seeing good sales growth recently is the iPhone which has allowed **Apple (NASDAQ: AAPL**) to hold up better than most of the technology market. I am not adding to Micron and Qualcomm right now. However, technology should do better overall as we enter the historically strong and holiday driven fourth quarter.

China concerns continues to be a major headwind for **Las Vegas Sands (NYSE: LVS)**. Comps will start to improve over the months ahead, capital expenditures will go down when the Parisian Macao opens early in 2016 and the stock's six percent plus dividend yield is a nice reward while waiting for prospects on Macau to improve.

Ending on a more optimistic note. Although our current market is rocky, it certainly is a better place to be than in the markets of China or Brazil that are in deep bear markets. Japan and Europe are showing either contracting or little growth as well. In addition, large cap growth plays are holding up much better than other higher beta areas of the market such as energy, small caps, and biotech.

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.
Allergan (AGN)	09/29/15	$254.87	$254.87	-	N/A	0.0%
Amgen (AMGN)	08/28/15	$155.89	$132.24	1.9%	-15.2%	-5.4%
Bank of America (BAC)	07/28/15	$17.88	$15.47	1.2%	-13.5%	-10.1%
Celgene Corp. (CELG)	06/26/15	$117.92	$104.79	-	-11.1%	-6.5%
Blackstone Group (BX)	05/18/15	$43.64	$30.90	8.0%	-29.2%	-10.7%
Qualcomm (QCOM)	04/15/15	$68.46	$52.54	3.0%	-23.3%	-10.7%
Capital One (COF)	04/15/15	$82.82	$72.17	1.8%	-12.9%	-10.7%
Express Scripts (ESRX)	03/18/15	$83.29	$80.00	-	-4.0%	-10.4%
Foot Locker (FL)	03/18/15	$61.17	$73.88	1.3%	20.8%	-10.4%
AbbVie (ABBV)	02/13/15	$58.05	$52.50	3.0%	-9.6%	-10.3%
Valero Energy (VLO)	02/13/15	$58.60	$57.88	2.5%	-1.2%	-10.3%
Gilead Science Inc. (GILD)	01/16/15	$100.71	$94.80	0.4%	-5.9%	-6.8%
Micron Technologies, Inc. (MU)	01/16/15	$28.99	$14.06	-	-51.5%	-6.8%
Apple Inc. (AAPL)	01/16/15	$105.99	$112.44	1.8%	6.1%	-6.8%
JPMorgan Chase & Co. (JPM)	01/16/15	$55.93	$59.98	2.5%	7.2%	-6.8%
Las Vegas Sands Corp. (LVS)	01/16/15	$54.89	$40.26	4.9%	-26.7%	-6.8%

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: 09/29/15. 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.