Jack Adamo's Insiders Plus

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January 12, 2013

Dear Friend & Client,

Thanks for joining me.

We're going to do some buying this week, even before Q4 earnings come out in force. All of the recommendations are foreign companies. Some are getting a lift from a modest improvement in the Chinese economy, and all are benefiting from the resumption of the downtrend in the U.S. dollar. M2 money supply has risen at an annualized pace of 12.3% since the end of September. According to top-rated economist Ed Hyman, "in the last five weeks alone, the U.S. money supply has risen the equivalent of $2 trillion." I'm not quite sure what he means by "the equivalent of" but that along with the M2 figures for the 4th quarter go a long way to explain the stock market's strong performance in the face of abysmal earnings.

There is no end in sight for this new deluge of money creation. The Fed has more than doubled its bond purchases with its open-ended QE3, and is now buying $85 billion per month in Treasurys and mortgage-backed securities, open ended, until unemployment reaches acceptable levels.

All of the above notwithstanding, until I see how Q4 earnings look, I'm reluctant to buy into the liquidity rally with earnings in American corporations at record high levels and hitting a wall. History shows us that when corporate profits as a percentage of GDP are this high, they soon revert to the mean (their average percentage), which would be a significant drop.

The poor showing of revenue growth and profit growth over the last few quarters lends support to a profit reversion scenario. Cost cutting can go only so far, then profits must rely on revenue growth, which is intimately tied to GDP. That's not to say there aren't exceptions, but overall, I'd rather not fight the tide. That's what is sending me abroad.

Healthy economies with strong currencies are doing well. The basket-case economies continue to debase their currencies in hopes that will help them export their way to prosperity. This tactic ignores the fact that their trading partners are trying the same trick. But countries with reasonable balance sheets and fiscal discipline are working their way to prosperity the old fashioned way. So, the five positions we will take this week are all from China, Canada and Australia. Two are additional allocations to stocks currently in the portfolios; two are re-buys of former positions, and one is a new buy of a very strong Australian bank.

CHINA REBOUND LOOKS REAL

According to data released by its General Administration of Customs, China's December exports jumped 14.1% from a year earlier, up from a 2.9% year-over-year gain in November. Imports were up 6%, after zero growth the previous month. The economic data out of China remains inconsistent, and has never been very reliable anyway. Its stock market is a better indication of what's going on over there. The Hang Seng Index has made steady progress since its Oct. 2011 low, and the Singapore Straits Times Index recently hit a new all-time high. Chinese energy companies are participating in the recovery, despite weakness in world oil prices.

CNOOC Ltd. (NYSE: CEO) is a Chinese state-controlled oil company. However, unlike **PetroChina Company Limited** (NYSE: PTR), which has large refining operations, CNOOC is almost exclusively an exploration & production company, making its money from selling crude oil and, to a much smaller degree, natural gas and liquefied natural gas. Its primary market is China, where the growth in energy consumption is still robust, but the company is free to sell its products anywhere. That's not to say that in a pinch China wouldn't curb exports, but so far, so good.

At nearly 12-times earnings, the shares are more expensive than most U.S. flagged oil companies, (~ 9-10 P/Es), but growth prospects are greater in China, and the company has been successful in expanding its resource base lately, mostly through joint ventures with foreign companies, especially Canada.

The dividend yield based on the last payout is 2.6%, which is respectable, but the five-year dividend growth rate of 9.9% is outstanding. <u>Buy CNOOC Ltd. Up to $217</u>. Take a 3% position in the Main Portfolio.

MORE BANK FOR THE BUCK IN CANADA

I've long been a fan of Canadian banks for their solid balance sheets and conservative operations. We currently have a 4% position in Canadian Imperial Bank of Commerce and a 2% in The Toronto-Dominion Bank. Both are making higher highs and higher lows on their long-term charts. Profitability is increasing modestly along with Canada's GDP, and their dividends, already better than American banks, have the fuel to grow. I expect these trends to continue. We will add 2% to each stock this week.

Canadian Imperial Bank of Commerce (NYSE: CM) is based in Toronto and provides various financial products and services to individuals, as well as small business, commercial, corporate, and institutional clients in Canada and internationally. It's one of the top four banks in Canada and, like the others, has very little in common with big U.S. money center banks, having avoided the great majority of their pitfalls.

The shares have more than tripled in the last ten years and recently hit a new all-time high. The quarterly dividend yields 4.6% and varies less than most foreign stocks. Yield growth has averaged 6.7% per year for the last five years. The shares trade for less than 11-times trailing earnings.

Last month the company reported Q4 and full year earnings for the fiscal year ended October 31. Quarterly EPS were up 12.8% at $2.02. Excluding "items" the rise was 14.6%. Full-year earnings were up 6.6% to $8.07 after reasonable adjustments. On a GAAP basis, they were up a rousing 17%, but the particulars in this case make that less meaningful than the adjusted comparison. Operating cash flow was four times higher than income, which is always a big plus.

Given the challenging economic and interest rate environment, these are excellent results, and the stronger Q4 numbers suggest things might improve further in 2013, although the environment will remain challenging. I'm raising the buy range on Canadian Imperial.

<u>Buy Canadian Imperial Bank of Commerce up to $85</u>. Add a new 2% position to our 4% position in the High Income Portfolio.

The Toronto-Dominion Bank (NYSE: TD) provides financial and banking products and services to personal and small business customers in North America and internationally.

The company is well capitalized and well operated. The stock has more than quadrupled in the last 10 years and shows no sign of slowing. It recently hit a new all-time high. Earnings are consistent and the stock pays a nice dividend, yielding 3.5% at its current price and payout.

Latest earnings didn't match CIBC's, but were good, considering the climate. Q4 GAAP EPS were $1.66 versus $1.68 last year, while adjusted earnings of $1.83 were 5% higher than the comparable quarter. Full year EPS were $6.86 according to GAAP, up 5%, and adjusted earnings were $7.42, up 8%. The shares trade for about 12-times trailing earnings.

Tier 1 Capital according to Basel III was a very healthy 8.2%. Return on equity was 16.3%, comfortably above the 15% threshold that Warren Buffett considers the measure of an excellent company.

Buy Toronto-Dominion Bank up to $86. Add a new 2% position to our 2% position in the Main Portfolio.

AUSTRALIA BANKS STRONG TOO

Like Canada and unlike America, Australia's big banks are operated responsibly. They've had no crashes, bailouts or larcenous shenanigans.

Commonwealth Bank of Australia (Pink Sheets: CBAUF) provides a broad range of banking and financial products and services to retail, small business, corporate, and institutional clients in Australia, New Zealand, the Asia Pacific, the United Kingdom, and the United States. The company operates approximately 1,100 branches and 4,200 ATMs. It was founded in 1912 and is headquartered in Sydney, Australia. This is a good size bank with a market cap of $97 billion.

The stock has more than quadrupled in the last decade and has a dividend yield of 5.4% based on last year's payout. Fully diluted EPS for the fiscal year ended June 30 were up 9.6% from 2011 and 22% from 2010. The interim report for the first six months of the new fiscal year is not yet out. We pay a bit of a premium for Australian banks because of their proximity to the fast-growing Asian markets. It's well worth it. CBA shares trade for a bit less than 14-time earnings on the Australian Exchange.

The story on CBA is similar to our other Aussie Bank, **Westpac Banking Corp.** (NYSE:WBK). It is conservatively run and well capitalized. There has been talk about housing prices being over extended, which may present some risk, but I've been hearing this charge since 2005. My read is that the conservative capitalization and lending practices of CBA and other Aussie banks can withstand any downturn the Australian economy is likely to face. That's why they've not suffered the fate of the big casino-like banks in America and Europe.

Australia is well positioned to take advantage of China's comeback, even if it is at a slower pace than pre-crash. The GDP number we now hear for China is 7% growth going forward. That's well below the 14% growth of the boom years, enough to drive demand for the raw materials Australia provides.

Because the stock is traded on the Pink Sheets (less liquid OTC), your broker may have a different symbol than the one shown above. Stocks traded on the pink sheets are very illiquid and probably have a big bid-ask spread. *Absolutely do not buy this stock with anything but a limit order within our buy range. You will almost certainly significantly overpay.*

If you can't get the stock within our range in a day or so, you may be better off buying it on the Australian exchange under the symbol CBA.AX. You will probably have to pay a higher commission than you will on domestic stocks, but you'll make up for it on the trade price. The Aussie Dollar trade price is lower because the Austral is higher the the greenback at this time. Trading volume is good on the stock on the .AX, but I would check the bid-ask spread before buying, and use a limit order anyway.

Buy Commonwealth Bank of Australia up to $68 U.S. or $64 Australian. Take a 4% position in the High Income Portfolio.

MORE AUSTRALIA

The last thing we will buy today is the **Aberdeen Australia Equity Fund** (ASE: IAF). We've owned this before and done well with it. The whole of Australia continues to get the China effect by providing its Asian neighbor with the resources it needs. Short term, the Australia currency is probably a little overvalued, but the long-term trend remains in place, and Australian stocks will get an additional boost from the currency translation into U.S. dollars.

Buy Aberdeen Australia Equity Fund up to $11.50. Take a 2% position in our Main Portfolio.

PORTFOLIO UPDATES

You probably got a notice from your broker recently about your position in the **India Fund, Inc.** (NYSE: IFN). Within a few days you have to choose whether to take the special dividend in cash or additional shares of stock. Most of the special dividend (94%) is actually long-term capital gains from the fund selling holdings; the rest is actual dividends issued by companies in the fund.

The Fund will limit to 20% the aggregate amount of the Fund's cash that will be paid out in this distribution. If cash distribution requests exceed that limit, the Fund will pro-rate the cash distribution among stockholders who elected to take cash.

You may want to check with your tax advisor about this. If you have capital losses (current or past years) you can offset this against them. This may make a difference in your choice. I'm no expert on these matters, but I suspect it's less complicated to execute this procedure with cash than with stock. Other than that, I see no reason you should prefer one choice to the other. Hold the India Fund, Inc.

We got a similar notice about the **Aberdeen Indonesia Fund** (NYSE: IF). The Fund declared a distribution of approximately $2.28 per share, comprised of long-term capital gains of $2.16; short-term capital gains of $0.01 and net investment income of $0.11 per share. My recommendation here is the same as it is with the India Fund. The Aberdeen Indonesia Fund is a buy up to $13.25. Take a 3% position in the Main Portfolio.

By the way, *the default option for both of the above funds is to take the dividends as stock*. So, if that is your preferrence you don't need to do anything. You only have to take action if you want the distribution in cash.

We have good news/bad news from **Southern Copper Corp.** (NYSE: SCCO) this week. The company could be facing a strike as soon as January 15 if talks break down. In the past these have been of moderate duration, so I'm not too worried. On the brighter side, Peru will help Southern move forward with its Tia Maria project, which has been delayed by community protests. The government will set up community consultation groups while it assesses the environmental impact of the project.

At issue is the water supply. The new study proposes to use seawater to satisfy the mine's needs. Assuming that's not too expensive and there's a way to handle the resulting waste water without detriment to the surrounding farmlands, this should meet the concerns of both parties. Southern Copper Corp. is a buy on pullbacks below $38. Take a 3% position in the High Income Portfolio.

DID YOU BUY CBB?

In case you missed this week's bulletin on the new buy of Cincinnati Bell Convertible Preferred, I've repeated it below. *This is not a second position in the stock; it's just a repeat of the write-up.*

Those of you who don't already have a position in **Cincinnati Bell Inc 6.75% Cumulative Convertible Preferred** (CBB-B) should initiate one. CBB is a bit riskier than our other preferreds. It is a relatively small company, having a market capitalization of about $1 billion. Like most phone companies, its wireline business is eroding and the firm must replace that revenue with wireless and data services. It was not as fast as it should have been in this transition, so the stock took a serious hit in 2008 and was slower to recover than Verizon and AT&T. Earnings from quarter to quarter are still a little rocky, as the company sells off underperforming assets, spins off others, and cuts employee expense.

The market seems to approve. The common stock has risen from $2.50 to $5.50 in the last two-and-a half years, far outpacing its bigger rivals and the overall market. Takeover guru Mario Gabelli likes the common stock enough to own more than 12% of its outstanding shares in his two major investment entities. BlackRock Institutional Trust Company owns 9%.

Company Insiders own 15% of the common.

The Preferred closed Friday at $46.39, which is out of our current buy range. I suspect it was my recommendation that drove up the price. The stock is thinly traded, which is why I said to buy it only with a Limit Order. Within a few days the shares should come down a bit. If they don't, I'll consider raising the buy range. It's still a good buy at the current price, but you shouldn't put in a market order and drive the price up further. At our current limit price, the shares yield about 7.5%.

The stock is convertible to common stock *at your option* at a ratio of 1.442 shares of common for each preferred. That currently works out to less than $8, so it is not a viable option at this point, but if the shares continue to grow as they have in the last few years, the exchange will be worth more. Long term that gives us a modicum of inflation protection. In the meantime, we're getting 7.5% on our money. The preferred has risen about 12% in the last year, and should continue that trend if the common rises, so there are potential capital gains here, although, as with our Bunge Preferred, I would probably keep taking the dividends.

Growth prospects and takeover possibilities not withstanding, this stock does have more risk than our recent Seaspan preferred stock buy, so we'll take a smaller position for now. If earnings show strength over the next few quarters, we may add to our position.

Cincinnati Bell 6.75% Cumulative Convertible Preferred is a buy up to $45.75. Take a 3% position in the High Income Portfolio. *Buy only with a limit order.*

Remember, unlike common stocks, *preferred stocks don't have a standard symbol.* You may have to check with your broker to see how they designate the shares. Options Express, for example, uses the symbol CBBpB and Yahoo uses CBB-PB. The designation given above is the one used on MSN.

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http://www.jackadamo.com/main.asp?fn=portfolio_view.asp

The password is: **perfect**

New subscribers please note: You can look up all the original write-ups on any stock in our portfolios by clicking on the symbol on the portfolio page. The original write-up is usually the first mention in any newsletter (although sometimes a stock has been re-recommended later); so, you'd want to pull up the letters oldest first. To see recent comments, click on the link that reverses that and brings up newest write-ups first.

Please see the important legal notice at the end of this letter.

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Due to the length of this letter, I'll postpone our discussion of gold until next week. I remain optimistic about its prospects.

That's it for today. The main action I want you to take this week is to make the small additions to our portfolios outlined above. These are all great long-term buys and have strong prospects of outperforming the market in the year ahead as well.

Those who bought Cincinnati Bell Convertible Preferred after my bulletin, please note that I've changed the symbol we track it with in the portfolio and archive. We will use CBB-B, since that's the symbol my portfolio updating program must use.

I look forward to talking with you again soon.

Jack

Questions? Write to Jack at: jack@jackadamo.com

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