

Jack Adamo's Insiders Plus

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Dear Friend & Client,

Thanks for joining me.

Gold had a scary week. The metal was down 1.5% and the miners fell 7% on average. I could find absolutely no fundamental reason for the drop. However, the move caused a widely watched indicator, the "death cross," to occur in a popular gold miners index. That could mean one of three things:

1. Bad news ahead in gold miner earnings;
2. Hedge funds and big trading houses are shorting the stocks to provoke weak hands to sell in panic, so that they (the hedge funds) may pick up the shares in expectation of a big rise, or
3. Nothing

Nothing seems the least likely -- the move was too big. I suspect it's door number two. To wit:



(Chart courtesy of Stockcharts.com)

As the chart above shows, since the financial crash, gold and stocks have risen together in approximate proportion. That's largely due to the falling U.S. Dollar, although other currency moves may also come into play. On the few occasions they have diverged, they have retraced the separation, usually within one quarter, two at most. I expect that to happen again. The thing that could make me wrong is if we have low inflation and no deflation, while stocks continue to grow.

Low inflation is normally good for stocks, unless it's a precursor to a recession. We've already established that such prognostications are beyond my ken. Still, it seems unlikely to me that we'll squeeze through that gap between low inflation and deflation, given the massive fiscal stimulus.

I should also point out that gold has a seasonal factor to it. If you overlay the metal's moves by months of the year, the chart shows that its strongest season is normally from September through early December, then a correction, and a lesser run from late January through early March, then an even smaller one for the month of May. But those are just averages over the last 20 years. Any individual year may differ, especially with the rampant Fed interference. This year the rally peaked in September in anticipation of QE3 and has been pretty much downhill from there. If we entirely skip the January-February rally, which is already late, I'll be a somewhat more concerned.

In any case, a few more weeks should shed more light on the gold story, as well as stocks, but big moves like we've just seen in gold often are the shakeout that signals a bottom.

Not Enough Visibility Yet

There are not enough earnings reports out yet to get a feel for Q4 or what that portends for the year ahead. As I think I mentioned last week, the consensus at the Barron's Roundtable this year is that both earnings and the market will be up in the mid-to-high single digits. These are smart folks, but last year they said the opposite and were wrong. They may be succumbing to adaptive expectations, the psychological tendency to extrapolate the past into the future.

One thing in the market's favor is that investors' memory of past trauma fades with time. Money flow into equities is improving, and many people on Wall Street feel that trickle will turn into a torrent. They may be right. However, I suspect the public's aversion to stocks will linger longer than after the dotcom bubble -- a kind of twice burned, once shy scenario -- so inflows may be slower than Wall Street expects. They will also gravitate toward more conservative, dividend paying stocks. Most of corporate America has already grasped that and are raising dividends, but for the Johnny-come-latelies, they may have to overcome some skepticism.

On the technical front, the major indices still look very strong. The RSI, a type of oscillator that has a good record of showing when normal pullbacks are likely, shows the market as very overbought at the moment. So, even if we had a sharp pullback here, it would not necessarily mean anything negative, although earnings reports may damp or magnify it. In any case, we will still sit on some cash for now.

PORTFOLIO UPDATES

Hasbro Inc. (NASDAQ: HAS) shares fell this week. The company expects charges of about \$37 million in 2012 and an additional \$20 million to \$30 million in estimated charges in 2013 related to its cost-cutting efforts. It also expects fourth-quarter revenue of about \$1.28 billion compared with analysts' estimates of \$1.4 billion. Demand over the holiday season was weaker than expected in the U.S. and some international markets.

For 2012, Hasbro expects full year 2012 GAAP earnings of \$2.52 to \$2.54 per diluted share \$2.82 for 2011. Items affecting the bottom line were generally more favorable last year than this.

As I said when I recommended Hasbro and **Mattel Inc.** (NASDAQ: MAT), both companies will have lumpy earnings, usually due to year-to-year variance of toy sales associated with hit movies. This year Hasbro is closing some plants and laying off about 10% of its workforce, so this may be a larger issue. However, the company has a great long-term track record, so we'll give it the benefit of the doubt. The results of the restructuring initiatives will be a good indication in the next couple of years.

Portugal Telecom, S.A. (NYSE: PT) fell 5.9%. The company was fined € 79 million for agreeing with Spain's Telefonica to keep the status quo regarding their relationship, with the proviso that the agreement would only be valid if it wasn't against the law. European courts gave short shrift to the "only if" clause and said it was price fixing, period. The fine is a very small one. I suspect the big move was because the shares are so thinly traded. Portugal Telecom is still up nearly 12% for us year-to-date. Buy Portugal Telecom, S.A. on pullbacks below \$5.20. Buy the stock only with a limit order, never a market order. Take a 2% position in the High Income Portfolio.

Dominion Resources, Inc. (NYSE: D) declared a quarterly dividend of 56.25¢, a 6.7% increase over last year's 52.7¢. A rising dividend feels good, especially when it handily beats inflation. I'll still want to look at the earnings report closely when it comes out, and I'll pay particularly close attention to the payout ratio.

Dominion has treated us well, rising 33% in the 28 months since we bought it. Hold Dominion Resources.

Management and workers at **Southern Copper Corp.** (NYSE: SCCO) will try to negotiate a new wage plan for another 15 days before resorting to a strike, according to union leaders. Workers

held a two-day strike at the end of December. They are asking for a 14% wage increase, as well as better safety conditions and health benefits.

Strikes are common at Peruvian mines. They usually don't last long and are resolved without too much financial damage to the company. Here's hoping this one runs true to form. Southern Copper is up 28.5% in the year we've owned it. Buy Southern Copper Corp. on pullbacks below \$38. Take a 3% position in the High Income Portfolio.

In case you missed my bulletin on Friday, I'm repeating here my buy recommendation of Apple and my raising of the buy range on Cincinnati Bell Convertible Preferred. *These are both just repeats, not additional buys.*

BUY APPLE, INC.

Apple, Inc. (NASDAQ: AAPL) fell more than 12% Thursday after posting a 1% increase in adjusted earnings on 18% higher revenue. GAAP earnings were actually down four-tenths of a percent. The concerns about Apple are real. It is facing very tough competition on the iPhone front from strong companies like Samsung using Google's Android system. Apple is also rumored to be contemplating a cheaper version of the phone to get a piece of the low end market. I think this would be a huge error. Apple has a strong panache factor and rabidly loyal fans. If it goes down market, it may lose that.

The company is also facing growing competition for its iPad from the same companies hitting it on the phone side.

That said, the stock is now selling for 8-times earnings. The company has no debt, \$40 billion in cash and short-term securities on its balance sheet, strong cash flow and a 2% yield. The payout ratio this quarter was 19%, so there is plenty of room to grow the dividend. In addition, iTV is probably going to come out sometime this year. Will it be a smash? I have no idea, and with guru Steve Jobs gone, the market is not giving the benefit of the doubt to new CEO Tim Cook. However, if it is a modest success, that will certainly help the bottom line. I also expect the iPad market to continue to be lucrative, despite competition.

In short, if Apple turns into a slow grower like Microsoft, the stock is still a good value here. That's not to say the market will see it that way -- one can never tell what Mr. Market will do, but there's a lot of negative sentiment about the stock now. Any good news could boost the shares quite a bit. Let us take a small contrarian position. Buy Apple, Inc. up to \$460. Take a 2% position in our Main Portfolio.

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Cincinnati Bell Inc 6.75% Cumulative Convertible Preferred (CBB-PB) New buy range is up to \$48. Put in a limit order and be patient. You should get it.

You can view all of our holdings with their current advice by going to:
http://www.jackadamo.com/main.asp?fn=portfolio_view.asp

The password is: **perfect**

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

That's it for today. We're in a holding pattern for another couple of weeks. In the meantime, I hope you will watch the video below. It is from Frontline, an investigative reporting show. It is about the total absence of criminal prosecution for fraud with regard to the 2008 financial crash. The main target of this report, Lanny Breuer, the head of the DOJ, resigned the day after this aired.

<http://www.pbs.org/wgbh/pages/frontline/untouchables/>

I look forward to talking with you again soon.

Jack

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

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