Short Report! 6 Stocks Poised To Run In 2016

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Stocks #1 & 2 Fannie Mae FNMA & Freddie Mac FMCC: possible legislation to allow profits to return to shareholders with new speaker of the house (Paul Ryan) and new President (Hillary or Trump)…this blurb from briefing.com summarizes the massive amount of money that the gov't is sucking from FNMA/FMCC

"Fannie Mae expects to pay $2.2 billion in dividends to Treasury in December 2015. With the expected December dividend payment, the company will have paid a total of $144.8 billion in dividends to Treasury. Dividend payments do not reduce prior Treasury draws, which total $116.1 billion since 2008."

If Wall Street even gets a hint that something around 100 billion bucks will be applied to the balance sheet in 2016? Oh yeah we are gonna see some fireworks. Interestingly enough, there is at least one major hedge fund that is actively lobbying in Washington D.C. for this exact scenario to play out.

What hedge fund, you ask? The one ran by Bill Ackman, Pershing Square. Here's a blurb from an interview he did with CNBC in July 2015:

“WILLIAM ACKMAN: We have announced, but no one has really noticed. Which is I think the most interesting investment we own today is probably Fannie Mae and Freddie Mac.

JIM CRAMER: Let's talk about that. Because there are people out here right now watching know there's a $2 stock, Fannie Mae common. A lot of people feel that the Treasury Department and government will never let that thing be worth anything. You obviously are making a statement that it's worth considerably more than $2 by saying what you did.

WILLIAM ACKMAN: For sure. It offers the most upside and probably has the most down side of anything we own. The down side outcome is very unlikely.

JIM CRAMER: Is it an AIG situation where you eventually win a court battle except this time it pays off?

WILLIAM ACKMAN: I think what's interesting about the AIG situation is we're not fighting the original deal with the government. Right. Hank, I give him enormous credit. He fought the government bailout. The government was the only money in town and terms were harsh. The terms were harsh for Fannie and Freddie. Three years -- four years after the crisis, the terms were changed again. The negotiation between the treasury and another agency of the U.S. Government.

JIM CRAMER: Right.

WILLIAM ACKMAN: I think that it doesn't get resolved in a legal outcome, possibly. I really encourage people to read the amici briefs, including one by a former FDIC chairman about the impact on the banking system if the so-called Fannie Mae third amendment is allowed to stand. I just think this cannot become a precedent where the U.S. Government can step in and unilaterally take 100% of the profits of a U.S. corporation forever.”

Source: http://www.cnbc.com/2015/07/15/cnbc-exclusive-cnbcs-jim-cramer-interviews-nelson-peltz-and-william-ackman-from-cnbc-institutional-investor-delivering-alpha-conference.html

So if Bill (William) is right, a shakeup at the FDIC could be what bulls bank on as November 2016 elections creep up on us. We'll see! If speculation really gets heated on this potential scenario coming to pass, I think we'll see FNMA surge past the recent highs in the $6 range.

Here's a weekly chart that shows us where FNMA has traded in the last couple years, and shows the $2 level as a good spot to consider building a position, as it has served as good support for the last 18 months or so:

(FMCC Chart is nearly identical)

Conclusion: If the market starts to think the odds of the gov't winding down it's profit sweeps of FNMA/FMCC profits is anywhere in the near term, both FNMA and it's brother FMCC (Freddie Mac) should see institutional investors put a strong bid under this stock, which could turn into a multi-week phenomenon that propels FNMA/FMCC to levels not seen since 2005 or 2006 (I'll let you dig up the chart from way back then…you'll be surprised at how high these stocks traded!). Of course there is a downside risk as well, and that is basically that these 2 stocks remain controlled by regulators/lawmakers…or worse, they wind them down, which may totally wipe out all equity value.

Stocks #3 & #4 Terra Tech TRTC & Hemp Inc HEMP: Another possibility for pot stocks to run into the new year and of course later in 2016 as elections approach….if left wing (read: democrat or independents) candidates are projected to win (and actually do) there is possibility of full scale marijuana legalization in more states. In 2014 traders got a little premature with their enthusiasm for being potentially on the forefront of a huge creation of wealth. Unfortunately the only ones left standing by April 2014 were insiders who unloaded shares during the frenzied buying of January through March of 2014…as well as the traders who were savvy enough to sell their shares before the volume dried up and the stocks crashed.

The TRTC & HEMP weekly charts below encompasses this period of uber bullishness followed by a vicious and prolonged selloff:

Conclusion: TRTC looks like it may be a good one to accumulate as it makes it's way down to .08, or perhaps under that. HEMP looks like it will probably go under .05 by late December. Or you could wait for the speculation to heat up again about marijuana legalization and jump in a little after the price starts to appreciate. I do want to note in closing that I don't think any sort of run in weed stocks in 2016 will amount to the type of run we saw in early 2014. So be nimble and whatever you do, do NOT fall in love with the "company" whose stock you are trading. It's a sure way to follow a tragic saga of disappointment and continually depreciating stock prices. Just trust me. I'm pretty much begging you to (for your own good). ☺

Stocks #5 Basic Oil Services BAS & #6 Ion Geophysical IO: 2015 was a year where many traders (me included) attempted to cash in on numerous "bounce" trades in oil driller stocks…many of which did not work out too well.

BAS continues to be my favorite oil service stock due to manageable debt levels. IO is my second favorite, and has the allure of being under a dollar a share (meaning dreams of swimming through mountains of cash should it rally hard to the upside are an obstacle to rational thinking). Both have decent management teams. But unsurprisingly, the fly in the ointment continues to be depressed oil prices. Unless oil rallies above, say, $55 a barrel…these stocks will continue to be weak.

What's interesting is that people are so pessimistic about oil prices that they indeed may be near the bottom. One analyst even went as far to project $100 oil by 2017.

Here's that article:

And here are the charts for both of them:

Conclusion: Both BAS and IO could be far from any sustained recovery, and worse, could be headed for trouble with their business models if oil prices don't recover meaningfully. The savvy way to trade these will be as they make new 52 week lows (for a buy) and to sell on any type of bounce. BUT…if oil stages a meaningful recovery, the sky is the limit on both of these.

<u>BONUS!</u> 2 growth stocks that could have stellar performances in 2016 are TTS (The Tile Shop) and SLP (Simulations Plus). TTS has seen momentum pick up in it's retail outlets and has beaten expectations for several quarters now. SLP could be on the front end of a big transition to more non-human based drug testing. Keep an eye on TTS and SLP!

-Matt Morris
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Helpful resources:

Stockcharts.com chart school:
http://stockcharts.com/school/doku.php?id=chart_school

FINVIZ Screener:
http://finviz.com/screener.ashx

Busystock earnings calendar:
http://busystock.com/earnings-calendar/

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