

## This Week's Wizard: Jordan Kimmel

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Jordan Kimmel

### **Bull Stampede**

*Q&A with Jordan Kimmel, Magnet Investing Report*

**You've been calling for this major rally in your newsletter while many pundits have been doubtful. Why your bullishness?**

The first clues came from underneath the market, which was the advance-decline lines on both New York and Nasdaq turning positive after being frustratingly flat to negative for several months. We also saw the new low list completely shrink up. These are the internals of the market that will lead the major averages higher or lower. So we saw the fundamentals underneath the market turn very positive.

#### **What else have you been seeing in the market?**

Another thing we've seen is that the leadership of the market, which was missing for a while, has turned to virtually all the major growth sectors. Health care is now leading the market, along with technology and consumer non-durables. When these groups lead, they are very strong for the overall market.

#### **What has signaled for you this sector rotation?**

Our quantitative model shows clusters of companies in these industries that rank out high. That's a sign that these groups have pricing power and that there's a ramp-up in top line revenue with the group.

**We've noticed that all five companies removed from your portfolio this month are energy or basic materials.**

Right. What we basically did rather than call the future was follow the model, and the model led us away from these, not to say that we believe in this sudden oversupply of oil and this sudden oversupply of basic materials. We don't believe that to be the case at all. The fact is that markets have changes in leadership, and that energy complex and basic materials group led the market for a few years. We benefited from the full move in those areas and stayed in right until the end of the move, as they continued to rank up high for another year after people thought their trend was played out.

#### **Tell us about your ranking system.**

What we do with our quantitative unemotional process is simply rank each public company by several factors: We group them into value, growth and momentum characteristics. What we're primarily interested in on the growth side is increasing or accelerating topline revenue growth coupled with profit margin acceleration. On the value side, rather than focusing on P/E we're primarily interested in price to sales as a much better indicator for valuation. Lastly we're looking for some price momentum to back up what we see on the value and growth component.

#### **Why price to sales rather than P/E?**

Wall Street remains consumed with bottom-line earnings, which are manipulated and you're always pulled into a sector at its lowest P/E and not its lowest price to sales. Sooner or later Wall Street catches up with this, but our model spots it earlier.

### **What do you see going forward in the market?**

The overwhelming biggest story remains the tremendous amount of cash that is built up on the sidelines waiting to come into the market. We have had every single thing for a bull market except one. And that was investors' confidence. As much as we saw record earnings and record cash flow the public remained too skeptical to be interested. What we're seeing right now is, once momentum kicks in, whether it's in gold or oil or basic materials or stock prices, once the momentum kicks in the me-too scenario begins to play out. There's a record amount of cash remaining on the sidelines, even ignoring all the money ready to come out of bond funds, and out of real estate, and I think we're set up for a two-year run that will surprise people to the upside.

We're also entering a phase right as we go into the best six months of the calendar, according to all the previous studies of market timing, coupled with this presidential cycle from the mid-year election lull which we talked about all summer long.

### **Any part shots?**

I think that it always comes down ultimately to stock selection. You don't want to overpay for even a good growth company or a good story. Second of all, I think what's really critical is that when the market turns bullish like it has, you need to expand your time horizon and always let your profits run.

*Jordan Kimmel is Author of the Magnet Investing Report and Managing Member and Portfolio Manager with Magnet Investment Group and Market Strategist for National Securities Corporation, one of the oldest and largest independent brokerage firms in the country. Magnet Management accounts and employees have holdings in stocks mentioned in this article.*