

Stocks Set to Rebound in Second Half of 2011

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BOSTON ([TheStreet](#)) -- It's easy for investors to think the sky is falling, given the drumbeat of dour economic news in recent weeks.

But those fears, which resulted in a 7% tumble in the **S&P 500 Index** over the past six weeks, may be overblown, several money managers say.



That's because much of the bad economic news has already been factored in to stock prices. Meanwhile, [U.S. corporations' fundamentals remain solid](#) after a 19.4% jump in S&P 500 earnings in the first quarter. Besides, investors have places to go other than equities as [fixed-income returns dwindle](#).

That sounds like a value-oriented, stock-pickers' paradise. So why the "chicken little" reaction?

Investors' wall of worry has been built by sovereign-debt-default concerns; high unemployment, now at 9.1%; rising gas prices; slower-than-expected growth in manufacturing; ever-slumping home prices; and, finally, the uncertainties over the end of the Federal Reserve's stimulus programs and Congress' dicker over the national debt ceiling.

Thomas Winmill, who manages the **Midas Fund (MIDSX)** and is chairman of the investment-policy committee for the **Midas Perpetual Portfolio Fund (MPERX)**, said the pedestrian economic growth is what's hamstrung the market's performance. "There were hopes and expectations for continued strengthening in the economy that have not been realized, and that has caused disappointment."

Mark Zandi, chief economist at Moody's Economy.com, said in a June 14 research note that he had forecast gross domestic product (GDP) growth of almost 4% for this year, but "instead, (the pace of) growth for the first half is coming in closer to 2 and will be just below 3%, at best, for the full year." The International Monetary Fund came out with virtually the same outlook Friday.

Zandi said his revision is largely due to an unexpected surge in oil and food prices and the fallout from the catastrophe that struck Japan in mid-March, which was more serious than anticipated.

He expects U.S. economic growth will pick up its pace as energy prices decline and Japanese parts suppliers recover and refeeding U.S. car and technology manufacturers.

Another sign of improvement: In its regional economic survey, the beige book, the Federal Reserve reported last week that its district banks "indicated that economic activity generally continued to expand" even as "a few districts indicated some deceleration."

Winmill remains optimistic about the balance of the year. "I would suggest that the market is way oversold, and people have reacted too strongly to the disappointing economic news."

Other fund managers and market analysts support that view.

Alec Young, Standard & Poor's equity strategist, reported that he expects the S&P 500 will reach 1,400 within a year, which would be a 10.2% rise from its current 1,270, although it will be a rough journey.

He said in a research note that despite concerns about the sustainability of recent earnings growth, "we believe downside is limited and that the current weakness is more likely to be a correction, rather than the beginning of a new bear market. In our view, 2011 estimated (earnings per share) would have to be excessively optimistic to justify a bear market."

The current scenario is much like that of a year ago when concerns over slowing economic growth caused the world's market to tumble 15% from April to August.

And that drove away many investors, causing them to miss out on the late-in-the-year rally that boosted 2010's gains to 15%

Joel Shulman, an associate professor of entrepreneurship at Babson College in Wellesley, Mass., and the manager of a hedge fund and the \$17 million small-cap growth fund **EntrepreneurShares Global Retail Fund(ENTRX)**, says he expects last year's pattern will repeat itself. The year will end with at least a 10% gain from its peak in late April and could result in as much as 15% to 20% return on the year, he says.

Shulman says he considers the recent pullback "an extraordinary buying opportunity."

He favors small- and mid-cap technology companies including **Acme Packet(APKT)**, which makes telecommunications equipment that supports video over the Internet; **IPG Photonic(IPGP)**, a maker of lasers used for cutting; and **iRobot(IRB)** which produces robotic consumer products such as vacuum cleaners.

Eugene Profit, founder of Profit Investment Management, where he manages \$2.5 billion, including the **Profit Fund(PVALX)** said stock pickers should find the current market environment rewarding, given current valuations, especially among large-cap stocks.

"It's not necessary to chase exotic stories and try to be a hero," he says. "You can buy some big names that function very well but that the Street, for some small reason, is not rewarding."

For example, he said the hot spot in technology now is "cloud" computing, and two of the biggest suppliers to that industry's players are software maker **Microsoft(MSFT)** and chipmaker **Intel(INTC)**. "We're bullish on (them) and our thinking is that eventually the Street at large will change its tune on these names" as the shares have been disappointing performers for some time.

Another one of Profit's favorites is iPad and iPhone maker **Apple(AAPL)**, which is trading at a low -- 13.5 times next year's projected earnings -- even though it had a huge first quarter, he said. "The weak point was (sales of) the iPad, but that was to a component shortage, and not demand."

And he notes that Apple's shares are down about 6.7% in the second quarter, so far, versus the S&P 500's almost 4% slide, "and that's worth noticing."

His Profit Fund's largest holding is **EMC(EMC)**, a data-storage-equipment maker that is also a cloud-computing hardware provider.

The health-care sector, which is defensive in nature, also has some good buys, Profit said. He likes drug giant **Pfizer(PFE)**, a relatively cheap on a historical basis due to concerns over upcoming patent expirations, "but it's made some acquisitions to speed up its pipeline and you're talking a stock with a sub-10 (price-to-earnings ratio) and generating a dividend yield of 3.9%."

Elsewhere, Winmill said the Midas funds have increased their leverage to take advantage of current market opportunities,

particularly among gold-mining companies. "It's a great place to be because it's been way oversold. We're seeing incredible valuations among gold and silver miners" with some selling at 10 times their annual cash flow, versus their historical average 20.

The Midas fund's largest holding is **Avocet Mining**([AVM](#)), at 7% of the fund.