

# 7 STOCKS TO SELL

*PLUS*  
SECTORS  
TO AVOID



**JOHN DOBOSZ**  
**EDITOR, FORBES DIVIDEND INVESTOR**

**SELL: QUESTCOR PHARMACEUTICALS (QCOR)**

Sometimes it's hard to let go of a big winner, but when the evidence piles up in favor of jettisoning a stock, you cannot ignore it. This is the case with **Questcor Pharmaceuticals**, a great performer for *Forbes Dividend Investor* readers, earning 25% total return from November 2012 through March 2013, and then scoring another gain of 125% between April 2013 and November 2013.

Things change, though. With Questcor, the decision to sell arises from the combination of massive insider selling, the potential for a crippling blow from regulators and a drop in price that exceeds 10%. The Anaheim, Calif., biopharmaceutical company develops and sells drugs for the treatment of multiple sclerosis, nephrotic syndrome and infantile spasms. Its primary seller is H.P. Acthar Gel, and it also sells Doral for the treatment of insomnia.

In 2012, the U.S. attorney's office for the Eastern District of Pennsylvania launched an investigation into Questcor's promotional practices. In late October of this year, as the company reported stellar quarterly earnings, it disclosed that the U.S. attorney's office for the Southern District of New York and the Los Angeles office of the SEC are also taking part in the investigation. This overshadowed a 70% jump in quarterly earnings and another dividend hike. QCOR dropped 11%, triggering the 10% trailing stop loss that I advise for all positions. The impact of these investigations is uncertain but could include major restrictions on how Questcor sells its drugs. It would be easier to dismiss the concerns if insiders weren't so busy unloading stock. Since mid-October, insiders have dumped nearly \$50 million in



Questcor shares at prices above \$60 per share, including almost \$5 million in sales by CEO Don Bailey and \$30 million of institutional selling by Broadwood Partners LP.

## SELL: CRACKER BARREL OLD COUNTRY STORE (CBRL)

Back in January 2013 when I recommended the stock in *Forbes Dividend Investor*, **Cracker Barrel** at \$65.13 looked like a dirt-cheap stock with a long history of paying steadily rising dividends. Shares of the country-themed restaurant chain traded at discounts to historical multiples of sales, earnings and book value, plus an activist investor was buying more stock and seeking a seat on the board of directors.

CBRL was a big winner, gaining 82% in price through its \$118.63 high on November 25, and it kicked out an additional \$2.50 per share in dividends, good for an 86% total return. The trouble now with Cracker Barrel is that it violated its 10% trailing stop when it fell below \$106.77. This trading discipline of ditching anything that drops 10% from its highest price during the time we've owned it is designed as an unemotional way to lock in profits or limit losses. Sometimes you're kissing a bigger winner goodbye, but more often you're selling a stock that you can buy back later at cheaper prices if you're still smitten.



Cracker Barrel's slippage from its peak provides a catalyst for taking profits, but it's not the only reason to be wary. Value has been a concern for a while. Discounted valuations that made the stock so attractive in January turned into premiums. At 22 times trailing earnings, and 18.5 times current year estimates, the P/E ratio is far higher than its 13.6 average since 2008. CBRL's 0.98 price-sales ratio may look lean but it's a whopping 167% higher than the five-year average.

One of the forces driving the stock higher has been activist investor Sardar Biglari, who owns almost 20% of outstanding shares through his hedge fund and his public company, Biglari Holdings (BH), owner of the Steak N Shake and Western Sizzlin restaurant chains. Cracker Barrel's directors have stifled Biglari in his quest over the past year to acquire more shares and gain a seat on the board. Biglari may get the hint and look elsewhere for opportunity, removing a big measure of support for the shares.



**TAESIK YOON**  
**EDITOR, FORBES INVESTOR**

**SELL: NETFLIX (NFLX)**

**Netflix** is the leading global provider of subscription services that allow customers to stream unlimited television shows and movies via the Internet to their TVs, PCs, tablets, video game consoles, Blu-ray players, smartphones and other mobile devices. Convenience, ease of use, a reasonable pricing strategy, a loyal customer base and the launch of original video entertainment programming contributed to an exceptionally strong year with shares nearly tripling in 2013. But with competition from

traditional cable operators and other over-the-top video services likely to intensify, NFLX will have a much tougher time justifying its absurdly rich valuation in the year ahead.



**SELL: CHIPOTLE MEXICAN GRILLE (CMG)**

**Chipotle Mexican Grille** operates more than 1,500 fast-casual Mexican food restaurants, primarily in U.S. The company has seen tremendous success over the past several years partly due to its emphasis on high-quality, fresh ingredients. This success is expected to persist. Indeed, the current consensus earnings estimate for 2014 of \$12.96 per share implies growth of 24% from what it will likely earn in 2013. But despite its growth, CMG has actually missed its earnings expectations in two of the past four quarters. Furthermore, given that shares currently trade at 40 times its 2014 estimate, its strong growth expectation is more than reflected in the current share price in my view. Any sliver of operational disappointment, such as weaker-than-expected growth in same-store sales or its newly launched catering

business, which many are relying on to contribute significantly to its growth in the year ahead, could result in a significant sell-off in stock.



## **MARC GERSTEIN** **EDITOR, FORBES LOW PRICED STOCK REPORT**

### **SELL SIRIUS XM HOLDINGS (SIRI)**

Anybody can sell a dog. It's really hard to sell a gem, but sometimes, it just has to be done and that's why I took profits in **Sirius XM Holdings**. The company offers great programming (human with many stations offering a personalized automated alternative), strong customer acceptance, and stupendous cash flows. But with the stock sporting an astronomical price/sales ratio above 6, I'd have to see a lot more sales growth than I think SIRI is generating in order to justify the current price or huge margin

increases. The share buyback-and-debt buildup could boost EPS, but that'll take time.

### **SELL JOE'S JEANS (JOEZ)**

**Joe's Jeans** has long had potential thanks to its various premium denim offerings and multi-faceted distribution strategy (wholesale, department stores, specialty stores). But it has often failed to deliver for one reason or another with the core women's wholesaling line having been a laggard more often than not. The recent acquisition of Hudson Jeans, another premium denim outfit, brings in a lot of new revenue but also a lot of debt for this previously debt-free

firm. Synergies may help, but given how big acquisitions often disappoint and the company's inconsistent history, I'd move to the sidelines for now.





## JOHN BUCKINGHAM EDITOR, PRUDENT SPECULATOR

### SELL: AMERIPRISE FINANCIAL (AMP)

While it would not be surprising for an investor focused on buying undervalued stocks to suggest selling or shorting expensive names like Facebook, Twitter or Amazon.com, I think it makes more sense to focus on the proverbial pond of stocks from which we have fished for value as we contemplate a sell recommendation. I have been a fan of **Ameriprise Financial's** overall business model for some time, but I would now sell the stock, as it is currently priced near my determination of fair value.

Ameriprise shares have been on a meteoric rise for the past few years, including an increase of more than 70% in 2013, and the stock is now trading near all time highs, changing hands at more than 15 times earnings, versus its competitor's average of less than 13 and its own five-year average P/E of approximately 12. Additionally, AMP shares are offered at a price-to-book value multiple of 2.5, well above its five-year average of 1.3. In such a competitive space I believe that investors are now paying too rich a price for the slow net revenue growth the firm has been delivering.

In short, the Ameriprise fishing hole has grown too crowded.







**JAMES BERMAN**  
**EDITOR, THE BERMAN VALUE FOLIO**

**SELL NETFLIX (NFLX)**

**Netflix** is betting its original content (admittedly terrific—I'm addicted to *House of Cards*) will do what it did for HBO during the years of *The Sopranos*: make it an essential accessory. The problem is that NFLX already is. NFLX is preaching to the wholly converted. With more than 30 million domestic streaming customers, NFLX has already signed approximately 1 in 4 American households. This is penetration for the ages. Even if NFLX signs 75% of U.S. homes, Trefis shows how the intrinsic value can't justify the current market price. A laughable 90 million subscribers get you to only \$334 per share, and this would be a level of dominance for only monopolies or dictators. I was bearish at \$227, so I've got some holiday crow to eat. But to sustain \$375, NFLX shareholders are going to need a fixer that would make even Frank Underwood blush.







**NIGAM ARORA**  
**EDITOR, THE ARORA REPORT**

**AVOID: 3D PRINTING STOCKS**

3D printing is hot; 3D stocks have been among the best performers. 3D printing is an additive process of laying successive layers of material to form a solid object. Since its invention in 1980s, the industry was comparatively moribund until recent years when it caught fire due to price drops.

The stocks in the group are expensive. Take a look at price/sales (P/S): **Voxeljet** (VJET) trades at P/S of 28, **Organovo** (ONVO) P/S of 1,000, **3D Systems** (DDD) P/S of 17, **ExOne** (XONE) P/S of 19, and

**Stratasys** (SSYS) P/S of 15.

These are early days for 3D printing; it is common for companies in new fields to have high valuations justified by expectations that such companies will grow into their valuations.

The issue with 3D is that the earnings models of many popular gurus are just plain wrong. These companies have a “razor and blade” model; gurus’ earnings models assume high margin material sales. After all, there is precedence; the likes of Hewlett Packard (HPQ) generate most of its profits not on printer sales but on ink sales to consumers. In the case of 3D printing, most of the sales will not be to consumers but to the likes of General Electric (GE), which is known to squeeze suppliers and commoditize materials.

The 3D printing companies will never generate earnings large enough to justify their valuations.



**MARILYN COHEN**  
**PRESIDENT, ENVISION CAPITAL MANAGEMENT**

**AVOID: LEVERAGED CLOSED-END AND MUNICIPAL BOND FUNDS**

What you shouldn’t buy in 2014 are **leveraged closed-end and municipal bond funds** until there’s blood in the streets. When the Fed begins to taper, the retail herd mentality will kick in as investors break their necks to exit these funds. Stay away from the funds that have a large Puerto Rico exposure; stay away until these leveraged funds sell at a minimum discount to the net asset value of 10%-15 %. If you do, you’ll be pulling a Bernard Baruch; buying straw hats in winter.



**CHARLES ROTBLUT, CFA**  
**EDITOR, AAI JOURNAL**

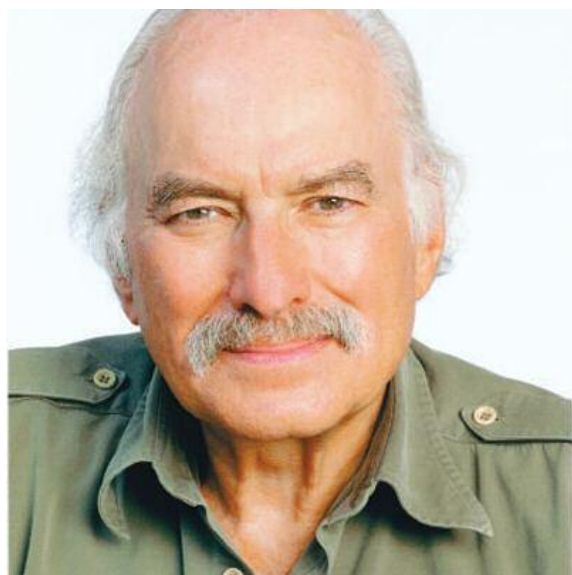
### **AVOID: CHASING YIELD**

I would be careful about chasing yield. The low-interest-rate environment has made high-yielding stocks and bonds more alluring to those investors who seek income, but there is often a reason why some securities trade at higher yields: risk. Investors who perceive a greater chance of losing capital demand a higher yield as compensation.

During a bull market, as have we experienced in 2013, tolerances for risk rise. It's easy to downplay the potential for losses when prices rise, but history shows such behavior is dangerous.

Sooner or later, the downside risks will appear and prices will fall. It's rarely a question of if, but rather of when.

What could cause higher-yielding stocks and bonds to fall? Rising rates could be one catalyst. Both the SPDR Barclays High Yield Bond ETF (JNK) and the Utilities Select Sector SPDR (XLU) dropped notably in the second quarter of 2013 when yields on the 10-year Treasury note spiked. Another catalyst could be a shift in preference towards growth stocks among investors. At the opposite end, sluggish economic growth could bring to the surface the financial problems of companies with high-yielding stocks or bonds. I realize that the current interest rate environment remains challenging. But it is often better to accept a lower yield than it is to risk a far larger decline of capital because you took on more risk that you should have.



**MARTIN SOSNOFF**  
**CEO, CIO AND FOUNDER,**  
**ATALANTA SOSNOFF CAPITAL, LLC.**

### **AVOID: MATERIALS AND ENERGY SECTORS**

I hate the entire materials and energy sectors. Too much over-supply. I panned coal a year ago and see oil declining to its replacement cost of \$85 a barrel.