

# Trading Up By Trading Down

Actionable Investment

By Joshua Enomoto



From an investor's perspective, the advantages of yieldcos are very obvious. First, the dividend yields are significantly higher than even those offered by traditionally high-yielding sectors, such as tobacco stocks. Second, yieldcos in theory are designed to take the bite off of the volatility typically inherent in energy stocks while providing consistent cash-flow.

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# January 2016 Speculative Investing Report

The financial sector is total horse manure. By any established metric or logic, the banking and financial services companies are in major trouble. The benchmark **Financial Select Sector SPDR** (NYSEARCA:XLF) -- an exchange-traded fund that, among several others, carries the major banking institutions known as the Big Four -- is down an astonishing -10% for the year. It's only been two weeks! In contrast, the blue-chip benchmark **S&P 500** is down -8%.

The XLF has nowhere to hide. The S&P index is off to its worst two-week start in its entire history and yet it is somehow performing better than the financials. Primarily, the Big Four -- J.P. Morgan, Citibank, Bank of America, Wells Fargo -- are to blame. All of them took nasty losses straight out of the gate, with year-to-date performance averaging an eye-popping -14%.

On surface level, the decline is a bit surprising. With the **U.S. Federal Reserve** raising key interest rates for the first time in years, this theoretically should boost bank stocks and other publicly-traded financial companies. Simply put, the higher rates allow lenders and savers to be in the driver's seat, while borrowers have to eat the increased premiums on loans.

That said, it is a trade-off. Higher rates of course de-incentivize borrowing. If the hawkish monetary policy is implemented towards a larger-scale, the velocity of money will noticeably decelerate. What the Fed was banking on (no pun intended) was that the magnitude of money flow deceleration would not offset the gains made by financial institutions across the country.

Quite frankly, the Fed was wrong. Although the immediate impact of the rate hike wasn't quite discernible, it became clear that as 2015 drew to a close and the world ushered in the new year, equity markets were having a difficult time holding on to hard-earned gains.

The painful reality is that the economy is still too fragile to manage a withdrawal -- no matter how gradual -- of quantitative easing. Jobs on a nominal basis have allegedly gone up, but it's clear to anyone that can read a chart that wage growth -- a key contextual component of the labor market -- has not kept pace. In addition, preliminary data from the University of Michigan's **Index of Consumer Sentiment** shows that while Americans feel much better about the economy since the collapse in 2008, there's still significant roadblocks ahead. As an example, consumer sentiment this month is expected to underperform its year-over-year level by 5%.

Generally speaking, it will be difficult to find bullish opportunities in this present market cycle. A bear market, no matter how short, tends to drag down most stocks regardless of industry. That said, there are a few speculative opportunities that could potentially do very well -- even under tough economic circumstances.

**Porter Bancorp Inc. (NASDAQ:PBIB)** may be one such name. Unlike the major bank stocks, PBIB is a regional institution, and as a result, it has a relatively small market capitalization of \$36.4 million. However, don't let its small size fool you as PBIB has several advantages that the majors lack.

- **Reduced Overhead:** Big banks means big overhead -- ostentatious architecture, questionable assets, and inflated payrolls, to name but a few. Lack of resources means more emphasis on creativity and efficiency, factors that have contributed to keeping PBIB afloat over the years.
- **Market Knowledge:** It may be an overlooked consideration but being a regional bank, PBIB knows their market. They live and breathe the community and culture from which they are based, and that allows them to develop strong ties and loyal clients.
- **Adapt to Change:** Due to the smaller size and float of PBIB, this allows management greater flexibility in effecting necessary change due to business dynamics.



On a weekly chart, PBIB is straddled in between its 50 day moving average (\$1.35) at the top, and its 200 day moving average (\$1.20) at the bottom. Technically speaking, we can expect a significant amount of fluctuation within these established support and resistance lines as the markets figures out what to do. So long as shares don't violate long-term technical support at \$1-even, look for near-term dips as buying opportunities.

In the short to intermediate term, the upside target is long-term resistance at \$1.50. However, given the recent momentum in PBIB, the longer-term target could be much more. The \$3 mark was a critical resistance barrier in the latter half of 2011 before PBIB subsequently collapsed. Should the rally keep moving, this would be a natural level that the bulls will challenge.

Again, the emphasis here is speculation. It's a very rough market that in all likelihood will get rougher before it gets better. However, the risk tolerant as an investment idea could make a play on PBIB now and reap the benefits down the road -- just don't lose your head and remember to maintain tight money management strategies!



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