Forbes
NEWSLETTERS

15 STOCKS TO BUY FOR 2015

It has been a challenging year for investors. Stocks rallied from February through July, then fell in August. The S&P 500 and the Dow Jones Industrial Average bounced to new peaks in September—2,018 and 17,390 respectively—before October's exciting plunge and climb that eclipsed September highs. The Fed ended its bond purchasing program known as quantitative easing, and interest rates remain low. Headwinds include slowing growth in China, Ebola, ISIS fears, and a looming recession in Europe.

Trying to outguess the market can make a fool of anyone. Instead of trying to move in and out of the market, a better strategy is to buy quality stocks that you can ideally hold for the longer term. With that in mind, we asked some of our favorite investment advisors for their best ideas for 2015. You'll find their recommendations in this special report.

Rogers Communications (RCI)

Yield: 4.8% Market cap: $19.6 billion P/E (forward): 12.4

The U.S. dollar has been on a tear since July, gaining ground in the past six months against all rival world currencies as economic growth and interest rates in the U.S. are among the world's highest. Just as the dollar was universally scorned not long ago, it seems that everybody these days is a dollar bull. That kind of widespread sentiment suggests opportunity by taking the other side of the trade. All foreign stocks lose a bit of their luster for U.S. investors during periods of dollar strength but sometimes the value can be too compelling to ignore, even with the currency drag. Here is one from Canada sporting a yield of 4.8% and major discounts to historical valuations.

Toronto-based **Rogers Communications** is Canada's largest cable television provider with 2.25 million TV subscribers and almost 1 million Internet subscribers, mostly in Ontario, New Brunswick, Newfoundland and Labrador. Rogers is also Canada's largest provider of mobile phone service, with 9.5 million voice and data customers. In addition, it also owns the Toronto Blue Jays Major League Baseball franchise.

For the most recent quarter, Rogers reported a 14.2% increase in revenue compared to the same period in 2013. Sales of $163.1 million exceeded the consensus estimate of $156.5 million, while Rogers' earnings of $0.70 per share fell short of expectations for $0.72. For the full year, analysts expect earnings of $2.97 per share on revenue of $14.53 billion. Rogers has a history of paying dividends dating back to 2000 and

it has hiked the payout every year. At a current quarterly clip of $0.4575 in Canadian currency, that works out to about $0.40 in U.S. dollars and an annualized payout of $1.60 good for a yield of 4.8%.

Valuation makes a good case for buying Rogers. It trades for an 11% discount to its average price-to-sales ratio over the past five years and 24% below its average price-to-book value ratio over the same period. As a multiple of operating cash flow, Rogers trades at a 9% discount to the five-year average.

FirstMerit Corp. (FMER)

Yield: 3.4% Market cap: $3.1 billion P/E (forward): 12.8

With an improving U.S. economy and the strong likelihood that interest rates will creep higher over the next year, it's a good environment for banks, especially smaller ones that focus on the meat-and-potatoes businesses of deposit-taking and lending.

With roots dating back to 1855 and based in Akron, Ohio, **FirstMerit Corp.** is the holding company for FirstMerit Bank with assets of $25 billion and 381 banking branches in Ohio, Michigan, Wisconsin, Illinois and Pennsylvania. The company reported third-quarter results on October 28, noting an improvement in loan loss reserves from the third quarter of 2013, but experienced a decrease in net interest margins, the difference between what it pays for deposits and receive for making loans. Higher rates will help boost those margins. For the full year, analysts expect FirstMerit to grow earnings by 19% to $1.40 per share. Revenue is expected to tick higher by 8.6% to $1.07 billion.

FirstMerit has a 25-year dividend history although it did slice the quarterly payout from $0.29 to $0.16 back in 2009 in the wake of the financial crisis. The current payout is easily covered by earnings with a

payout ratio of 46% of expected 2014 EPS. On valuation, FirstMerit is full of value. It trades for 9 times enterprise value to EBITDA, a 14% discount to its five-year average. It trades at a 12% discount to its average price-to-book value ratio since 2009. From a technical perspective, FMER has rallied nicely on big volume above its 50-day moving average, lending credible evidence to the case that the downtrend since July has been arrested. I originally recommended FirstMerit on March 6, 2013 at a dividend-adjusted price of $14.53. Today it warrants further buying at current prices.

Kellogg (K)

Yield: 3.1% Market cap: $22.7 billion P/E (forward): 15.7

Blue chip dividend-payers in the consumer staples sector tend to show their stripes when the market turns choppy. Here is a reliable dividend-payer that's been in business for more than a century and offers a discounted valuation compared to historical averages.

Founded in 1906 and headquartered in Battle Creek, Michigan, **Kellogg** makes and markets breakfast cereals and snack foods in the United States and overseas, primarily in the United Kingdom. Analysts expect flat revenue for 2014 and 3.7% earnings growth to $3.91 per share.

Dividends have been paid every quarter since 1985 and regularly increased. At a current quarterly rate of $0.49, Kellogg's yield is 3.1%, and the dividend is well covered by earnings and cash flow. Kellogg looks cheap relative to recent history. Over the past five years, it has traded for an average price-earnings ratio of 18.5. With that multiple on $3.91 per share in forecasted earnings per share you get a stock price above $72.

Taesik Yoon, Forbes Investor; Forbes Special Situation Survey

SpartanNash (SPTN)

Yield: 2.1% Market cap: $899.5 million P/E (forward): 12.1

Investors will sometimes take an overly cautious view after a company makes a significant acquisition. This is due to the increased leverage often assumed to finance the transaction and uncertainty over whether the synergies projected will actually be realized. For **SpartanNash**, a leading national wholesale grocery distributor and regional supermarket operator formed through the November 2013 merger of two similar-sized publicly-traded firms, this has clearly been the case for much of the current year. Yet boosted by cost synergies that have been more significant than initially anticipated, profits from the combined company have exceeded expectations every quarter since the merger.

Supported by better consumer spending trends stemming from improving domestic employment and lower gas prices—which are resulting in strong comparable store sales performance and stabilization conditions in key markets—I expect this to continue and set the stage for a meaningful rise in share value in 2015.

Merge Healthcare (MRGE)

Revenue (ttm): $212.3 million Market cap: $303.2 million P/E (forward): 15.7

When a stock falls into the low single-digits, there's usually a good reason for it. For **Merge Healthcare**, a provider of imaging and interoperability solutions and clinical systems to health care professionals, which has seen its stock lose more than half its value since February 2011 and trade below $3 for much of the current year, there have been several. But how it got there matters little. What matters now is where the stock's headed, which is likely a lot higher if its strong recent operating performance holds up like I think it will.

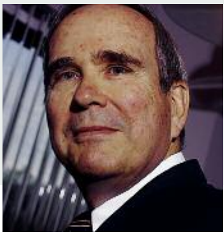
Indeed, past strategic actions to improve its margin profile have led to three consecutive quarters of significant profit growth—the last two of which have greatly exceeded even the most optimistic expectations. Furthermore, increased demand for enterprise systems that can scale and share information across disparate systems, key product upgrades and newer/upcoming software-as-a-service (SaaS) offerings with sizable market opportunities (such as its iConnect Network advanced imaging network product launched last December), make me optimistic that the strong order activity MRGE has enjoyed recently will persist in 2015.

American Vanguard (AVD)

Yield: 1.7% Market cap: $373.8 million P/E (forward): 16.9

No matter how well run a company is, there will always be factors that are simply beyond its control. For **American Vanguard**, which provides products used to protect and enhance crop yields, one of the most damaging is weather. Indeed, delays in spring plantings stemming from poor weather conditions earlier in the year resulted in excess channel inventories of the company's bread-and-butter granular soil insecticides and herbicides. This has severely crimped profitability in the current year and led to a huge drop in its stock price.

More recently, however, AVD's efforts to reduce this overhang, has resulted in channel inventory levels that are much closer to the historical average. This should result in higher utilization rates as demand improves. Coupled with the benefits of process improvements, in-sourcing and cost reductions the company also implemented, I expect to see a nice rebound in both earnings and share value in 2015.



Richard Lehmann, Forbes/Lehmann Income Securities Investor

Blackstone/GSO Senior Floating Rate Term Fund (BSL)

Yield: 7.0% Assets: $282.3 million Discount to NAV: -7.92%

Floating rate securities are popular today because of fears that the Fed will drive up rates in 2015 and also because they provide a hedge for portfolios overweight with interest sensitive securities. As a result, such securities only yield 4% to 5% returns. Imagine then a closed-end fund providing such protection and yielding 7%. The **Blackstone/GSO Senior Floating Rate Term Fund** does just that and sells at an 8% discount to boot, albeit with 43% leverage.

The fund's primary investment objective is to seek high current income, with a secondary objective of preservation of capital. It will pursue these objectives by investing primarily in senior, floating rate loans. Senior loans are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities that operate in various industries and geographical regions. Senior loans pay interest at rates tied primarily to LIBOR, plus a premium. The funds five largest loans are U.S. Foods, Capital Safety North American Holdings, Avaya, Sheridan Production Partners LP and Sensus U.S.A. BSL has more than 200 holdings in its portfolio. This taxable fund would be a good addition to a medium to high-risk diversified account.

John Buckingham, Prudent Speculator

Yamana Gold (AUY)

Yield: 1.6% | Market cap: $3.3 billion | P/E (forward): 15.5

Yamana is a gold producer, deveoper and explorer with assets in Central and South America. Although Yamana is heavily invested in the precious yellow, it is also a copper and silver miner. While I am not banking on a grand resurgence in gold prices over the near term, I like that despite a depressed environment, the company realized operational cash flow in the latest quarter that exceeded the $0.20 per share base line it established in 2013. Already boasting one of the lowest cash operating costs in the industry, Yamana is working to maximize margins via cost cutting and containment, in addition to infill drilling and equipment upgrading in advance of production increases. While the price of gold is not that far from unchanged since the start of the year, AUY shares have lost more than 50% of their value, making the stock and its 1.6% yield a bargain in my book.

Coach (COH)

Yield: 3.8% Market cap: $9.6 billion P/E (forward): 17.0

Coach, which is best known for its accessories (especially handbags), is a specialty retailer in the appealing affordable luxury segment. International growth has been concentrated in Japan, but COH is focusing on Europe, China and emerging economies. Shares are down sharply this year, as operational headwinds in North America and new competitive landscapes have taken their tolls. While pleased to see the company beat expectations in the most recent quarter, cost controls led the way, as North American sales continued to struggle. Nonetheless, it seems management has a workable brand-repositioning plan. A successful turnaround will take time, capital and cash flow, but is achievable.

Also, I am pleased that early reads on new products are receiving positive responses across price points. I like the debt-free balance sheet, relatively strong global brand with loyal customers, and momentum in new geographic markets. I expect earnings to bottom in 2015 and I am buoyed by the 3.8% yield.

Jim Oberweis, The Oberweis Report

Diplomat Pharmacy (DPLO)

Revenue (ttm): $1.8 billion   Market cap: $1.1 billion   52-week high: $23.49

Headquartered in Flint, Michigan, **Diplomat Pharmacy** is an independent specialty pharmacy that serves patients with complex chronic diseases like cancer, multiple sclerosis and hepatitis. Diplomat develops customized care management programs for dispensing clinically intensive and expensive drugs, many costing more than $100,000 per year per patient. Specialty drugs are the fastest growing segment of the pharmaceutical market, projected to grow 20% annually from 2013 to 2018. The benefit: Diplomat contains long-term costs for insurance companies by improving patient care and monitoring patient adherence. Diplomat claims to be free from the conflicts faced by competing giants, CVS Caremark and Express Scripts, which are purportedly incented to substitute lower cost over highest quality drugs. Shares trade for 57 times my forward EPS estimate $0.40, although profitability should really expand in 2016 as their recurring revenue base scales and margins widen. Expect revenues to grow 20%, but earnings will grow much faster.

Zeltiq Aesthetics (ZLTQ)

Revenue (ttm): $159.6 million | Market cap: $1.0 billion | 52-week high: $28.71

Based in Pleasanton, California, **Zeltiq Aesthetics** has developed a system that reduces unwanted fat tissue non-invasively. The company's technology is based on the principle that fat cells are more sensitive to cold than other tissues are. Zeltiq's FDA-cleared Coolsculpt procedure removes unwanted fat without surgery by precisely cooling fat cells in the treatment area. The frozen fat cells are naturally processed by the body without damaging the skin and surrounding tissue. A 2011 IPO, Zeltiq stumbled and posted losses in each of the next three years, but is mounting a comeback following a 2012 management overhaul and increasing procedure utilization. Zeltiq generates revenues from system sales and per-procedure fees, which implies a stable base of recurring revenue as the number of systems in the field grows. I expect the company to report its first full profitable year in 2015, with EPS of $0.10 on revenue growth of 25%.

Denny's (DENN)

Revenue (ttm): $457.8 million | Market cap: $768.5.million | P/E (forward): 22.2

I love opportunities in companies that transition from "z-z-z-z" to "OK." *Forbes Low Priced Stock Report* has had success with Rite Aid and I think casual restaurant chain **Denny's** may be another such opportunity. The décor and exterior look is changing from 1970s bus terminal to a more modern stylish appearance. The chain's indistinct all-things-to-all-people drawback is being turned by the company into an asset as Denny's positions itself as "America's Diner" with an "Unpretentious, come-as-you-are environment open to all tastes and wallet sizes." Instead of simply having a cheap section of the menu, it now has a pretty "$2 $4 $6 $8 Value Menu" well illustrated at each level. As with Rite Aid, DENN isn't simply doing what rivals had been doing all along. Like Rite Aid, Denny's is unlikely to outperform rivals, but stockholders can make good money as companies transform themselves from crummy to decent.

Concurrent Computer (CCUR)

Yield: 6.8% Market cap: $63.8 million Revenue (ttm): $71.5 million

Concurrent Computer supplies hardware, software and services that facilitate the airing of video on multiple screens. Ho hum. I get it. By now, we are fully accustomed to seeing video played on everything and anything (televisions, tablets, cell phones, etc.). It seems so easy. But behind the scenes, this can actually be quite a complex undertaking, especially given the varying nature of video origins. And growth is mushrooming thanks to OTT (over-the-top) video services like Netflix that use Internet and bypass regular cable or over-the-air broadcast. And just when we thought we'd seen it all from fancy flat-screen TVs, we now have the emergence of Ultra HD with its new compression standard. I'm also intrigued by CCUR's participation in the industrial simulation business. If this didn't catch your fancy, how about this: The stock yields 6.8%.

Foot Locker (FL)

Yield: 1.6% | Market cap: $8.0 billion | P/E (forward): 14.6

New CEO Richard Johnson is taking the reins of this specialty athletic retailer at a good time. **Foot Locker** has been growing earnings rapidly (a 57% clip, using an average of the three- and four-year earnings per share growth rates), and the big decline in gas prices should give consumers more money to spend on the discretionary-type items it sells.

Foot Locker has upped EPS in each of the past five years, catching the eye of my James O'Shaughnessy-inspired Guru Strategy. The model looks for a combination of good momentum and attractive value, and Foot Locker has a strong 12-month relative strength of 88 and a solid price-to-sales ratio of 1.14. It also has the type of conservative financing that my Benjamin Graham-based model likes ($134 million in long-term debt vs. net current assets of $1.8 billion), and the strong profit margins (6% net on average over the past three years) that my Ken Fisher-based model likes.

Credit Acceptance Corp. (CACC)

Revenue (ttm): $713.7 million Market cap: $3.6 billion P/E (forward): 12.0

An indirect auto finance company, **Credit Acceptance** works with car dealers nationwide to enable them to sell cars to consumers on credit regardless of their credit history. It's a favorite of my Warren Buffett-inspired Guru Strategy, in part because it's an all-weather earner—the company has upped earnings per share in all but one year (2006) of the past decade. The model also likes its 25.8% average return on equity over the past decade, a sign of the "durable competitive advantage" Buffett is known to seek, and its 20.1% return on retained earnings (those not paid out as dividends) over that period.

My Peter Lynch-based model is also high on Credit Acceptance. Lynch famously used the PE-to-growth ratio (PEG) to find attractively priced growth stocks; Credit Acceptance's 27.6% long-term EPS growth rate (using an average of the 3-, 4-, and 5-year EPS growth rates) and 14.0 price/earnings ratio make for a stellar 0.5 PEG.

Disclosure: John Reese is long Foot Locker and Credit Acceptance.