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Facebook, Baidu, Coach And 5 Other Blue-Chip Stocks To Buy For Second-Half 2017

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I cover Shark Tank and investing in ETFs and mutual funds. **FULL BIO**

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In terms of stock market years, the bull market that kicked off in March 2009 should be on the front cover of AARP magazine. At age 8, the S&P 500 bull run is very old and very overvalued compared to its historical ratios. Given the less than stellar circumstances, how should you invest now? I asked a panel of investing strategists and asset managers to share their best investing idea for the second half of 2017.

1. **Facebook ($446.1 billion market capitalization)**

We all used to have a good friend named productivity before the ubiquitous social media juggernaut came along. Now we pass the time liking puppy videos and wishing long lost friends happy birthday with no shortage of gifs or stickers to say it with.

Facebook makes for a great investment given its huge top-line growth and +30% free cash flow margins, says Barry Randall, chief investment officer of Crabtree Asset Management in St. Paul, Minn.

> “With 1.9 billion worldwide monthly active users, Facebook can try almost any service like payments or video across only a fraction of its user base and yet still reach useful conclusions about efficacy and profitability,” says Randall. “Facebook has risen roughly 30% in the first half of 2017. While it's not realistic to expect a similar jump in the second half of the year, it is likely that Facebook will continue to dominate as a communications tool, an advertising platform and a profit-making machine.”

2. **Baidu ($62.5 billion)**

The Google of China is the No. 1 search engine in the People’s Republic, yet it has just one-tenth the market capitalization of Google’s parent company, Alphabet -- with a market cap of $668.3 billion. Like its U.S. counterpart, Baidu makes money from online advertising, search, news, music, voice assistance, cloud storage, voice navigation, etc.

“Broader online search-ad growth in China is likely to slow down as the market approaches maturity,” said Chris Kim, chief investment advisor at Tompkins Financial Advisors in Ithaca, N.Y. “However, Baidu, which attracts more than a third of China's online ad spending, should return to revenue growth this year with the return of medical industry ad spending, new products such as its newsfeed and possible consolidation of China's online-to-offline (O2O) industry.”

Baidu is his No. 1 investment idea for the second half of 2017.

> “Baidu's long-term growth drivers include artificial intelligence (AI) investment to improve search efficiency, new mobile products such as newsfeeds, and other initiatives such as cloud computing and autonomous driving,” Kim said. “Over half of Baidu’s R&D budget and all incremental spending is related to AI. Open source autonomous driving AI will support enterprises involved in self-driving cars, monetized through services, components and more.”
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> “Baidu has more than 60 autonomous driving partnerships in China with agreements to install its software platform in 150 vehicle models by 2020. With China’s auto market accounting for approximately a third of global auto sales, even a moderate inclusion of Baidu’s autonomous software in Chinese cars could generate a sizable new revenue stream for the company.”

3. **Coach ($13.1 billion)**

Struggling to compete with e-commerce, retail stocks fell out of fashion this year and failed to jump aboard the bull train. SPDR S&P Retail ETF plunged 11% this year, through June 21, while the S&P 500 popped 10%, according to Morningstar.

Coach stock soared to an all-time high of $77 in early 2012 and spiraled south ever since. After rallying 20% in three months, Coach stock is trading in the mid $40s and pays a 3% dividend. Coach has beefed up its online platform. It has beaten earnings forecast 13 quarters in a row thanks to strong growth at its stores in Europe and China.

Andrew Arons, founder of Synergy Advisory Management Group in Hackensack, N.J. forecasts the stock will approach $70 a share in the next year.

> "The company has been transitioning from handbag retailer to house of fashion," said Arons. "The company acquired Stuart Weitzman last year and most recently Kate Spade, which should add different demographics to the iconic brand's customer base. Sales have been improving in the U.S. and overseas, and I think they will only get better in the near future."

4. **Southwest Airlines ($36.9 billion)**

Perhaps retail sales are slumping because people are spending more on travel. The largest domestic carrier offers ultra-low fares without charging extra for checked bags nor travel changes. Southwest Airlines is Janet Johnston's top pick for 2017. She serves as a portfolio manager at TrimTabs Asset Management in New York City with $25 million under management.

"Southwest Airlines is a high-quality company with a strong balance sheet that has remained profitable for over 40 consecutive years," Johnston said. "On TrimTabs Asset Management quantitative screens, Southwest Airlines ranks in the top quartile for free cash flow generation."

Southwest Airlines is the only U.S. domestic carrier to have a decades-long track record of buying back stock or paying dividends or both, she said. It ranks in the top 3% in her firm's quantitative models for share repurchases.

"As of May 17th, they had returned $123 million in dividends and repurchased $950 million in stock in 2017," said Johnston. "During Southwest's first-quarter conference call in May this year, management discussed an inflection point and broadening of business in April as the economy improves. They expect this trend to continue."

Southwest has hedged its fuel costs. All the while, fleet modernization should also improve fuel efficiency and increase the number of passengers on each flight, Johnston added.

"As these hedges unwind and are discontinued, there should be an increase in margins with lower fuel costs," said Johnston. "The broadening of business and improvement in fuel efficiency and fuel costs should provide a tailwind to earnings."

Southwest Airlines is priced at a discount compared to the industrial sector of the S&P 500.

5. Lowe's Companies ($68.6 billion)

Rob Breed, senior vice president and portfolio manager at F.L.Putnam Investment Management Company in Portland, Maine, is most bullish on Lowe's. The second-largest U.S. home improvement and construction supplies retailer behind Home Depot is safe from losing market share to Amazon.com and offers growth at a reasonable price, says Breed.

"Both new construction and home improvement markets remain strong and millennials with a homeownership rate of 34%, versus baby boomers near 80%, are finally forming new households," said Breed. "Lowe's is expected to grow earnings 15% annually in the coming five years, significantly faster than S&P 500 earnings growth of about 11%."

Yet Lowe's trades at just 16 times forward earnings versus 21 times for the S&P 500, Breed added. "The obvious risk is sharply rising interest rates, but that risk is already reflected in Lowe's discounted valuation."

6. Genuine Parts ($13.2 billion)

Genuine sells automotive replacement parts, industrial replacement parts, office products and electrical and electronic materials in North America, Australia, New Zealand, and Puerto Rico, under the NAPA brand. It's benefiting from a growing trend of car owners keeping their cars longer, an average of 11.6 years, says Robert Johnson, president, and CEO of the American College of Financial Services in Bryn Mawr, Penn.

> "The firm should thrive in an environment in which interest rates are gradually trending upward," said Johnson. "Historically, rising rates put a damper on consumers purchasing new automobiles."
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> "While rates are not expected to rise dramatically in the second half of 2017, over the longer term the trend is definitely higher," Johnson added. "Investors should be positioning their portfolios in anticipation of slowly rising rates."
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> "Interest rates, particularly the direction of interest rates, is the single most important valuation factor today," Johnson said. "None other than Warren Buffett recently said 'Everything in valuation gets back to interest rates.'"

Johnson also likes Genuine for its nearly 3% dividend yield.

"And, if any potential investor is concerned about the safety of that dividend, the company has increased its dividend for an astonishing 61 consecutive years," Johnson said.

7. Teva Pharmaceuticals ($31.7 billion)

Shares of the world's largest generic drug maker plunged 36% in the past 12 months. It is trading near 10-year lows in the face of slumping sales of its flagship Copaxone drug and a U.S. Department of Justice investigation for price collusion. At the same time, the company is searching for a new CEO.

Steven Schoenfeld, founder and CIO of BlueStar Indexes, however, is bullish on Teva because of its massive market share.

> “One out of six prescription drugs are filled by Teva in the U.S., while in other countries, it is one out of four,” Schoenfeld said.
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> He added: “Interim CEO for Teva, Yitzhak Peterburg, emphasized the firm’s cyclicality during the most recent quarterly conference call, referring to how the company's weakest quarter is typically Q1, while it strengthens throughout the year, delivering its best quarter at the end of the year, Q4. He stated to expect this trend to continue, which should bode well for the stock’s attempted turnaround.
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> “Adding to that, the company just appointed new board members, and will likely have a new CEO by the end of the summer, helping to lift some of the overhanging clouds of uncertainty.”

Teva is trading at a bargain valuation of 7 times forward earnings versus 20 for the S&P 500.

> “In terms of catalysts, Teva announced at the end of May the successful completion of their Phase III study of Fremanezumab, a medication used to prevent migraines,” Schoenfeld said. “ This is a major opportunity given the sheer size of the market. In fact, according to the Migraine Research Institute, more than 38 million Americans experience migraines.”

8. **United Technologies ($97.6 billion)**

If you’ve ever ridden in an elevator, escalator, moving walkway, you used a United Technologies product. Its Otis division is the leader in mobile management and the innovator behind the remote elevator monitoring system (REM) and Gen2 belt technology. It also produces climate control and security systems.

> “The firm is on the cutting edge in new technologies, aimed at improved energy efficiency and sustainability,” said Jennifer Olson, senior financial analyst at Apriem Advisors in Irvine, Calif. “United Technologies industrial divisions recently acquired Wipro Limited EcoEnergy Business Division -- a leading energy management solutions company -- and partnered with AT&T to incorporate wireless connectivity technology into commercial HVAC equipment. This division also houses the Otis elevator brand.”

United’s aerospace division -- Pratt & Whitney -- has a contract with Uncle Sam and Lockheed Martin to produce F-35 Fighter Jets. Olson, whose firm oversees $550 million in assets, forecasts mid-single digit revenue growth at United over the next 18 months.

> “After a rough few years, I believe that both of these divisions are now seeing strong momentum this year and into 2018,” said Olson. “I believe they can achieve strong organic growth from government contracts and increased demand for residential/commercial building products and services. Its global reach translates into cost advantages for manufacturing, distribution and aftermarket service.”

Aerospace will be the main growth driver for United for the next few years, says Olson.

> “After some delays with their latest Pratt engine in 2016, I see order deliveries picking up substantially,” said Olson. “After delivering only 136 of their latest engines last year, Bloomberg estimates that deliveries will pick up substantially; delivering more than 400 this year and almost 1,000 in 2018.”
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> “Of course there remains significant risks for United Technologies as well as the entire industrial sector. “Any delays in engine deliveries could hurt revenue growth as well as profit margins,” Olson added. “Their industrial business is highly sensitive to global economic growth. Despite the concerns, United is attractive at these levels and offers a compelling risk/reward trade-off.”

Ky Trang Ho is a business/financial writer and content strategist. She founded Key Financial Media, which produces marketing content and thought leadership for financial services firms.