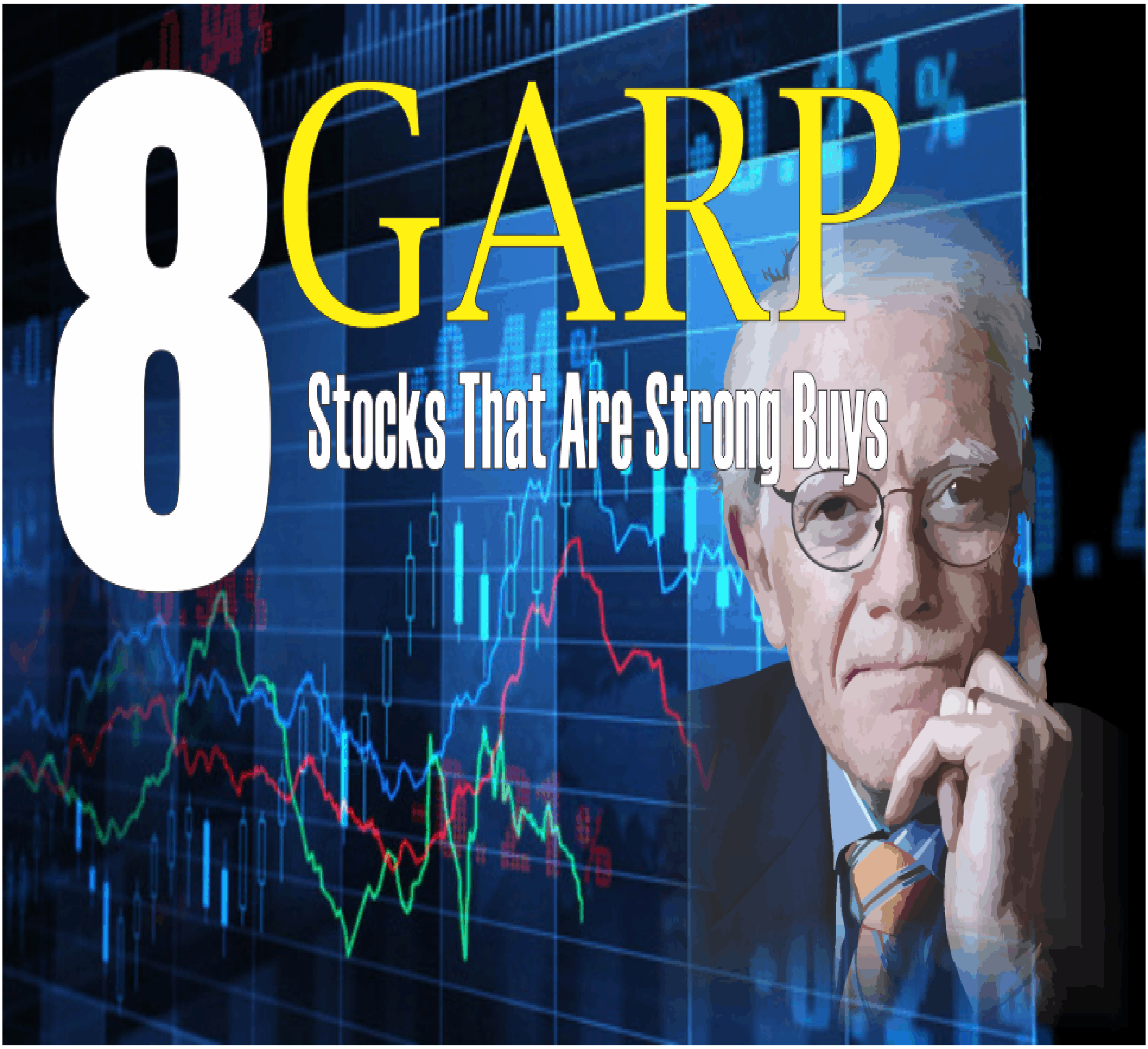
8-GARP Stocks That Are Strong Buys



In our [previous article](#) we noted that one of the biggest challenges in managing money is finding the right stocks to add to your portfolio. It is hard enough to cull through the 1500 stocks that make up the S&P 500, 400, and 600 indexes much less the more than 6,000 other securities available for investing in. While we covered dividend income stock last time, this time we thought we would dig around stocks which are trading at a discount to expected growth or, more commonly known as, *"Growth At A Reasonable Price."* GARP investors look for companies that are somewhat undervalued *(a feature of value investing)* with solid sustainable growth potential *(a tenet of growth investing)* ? an approach that attempts to avoid the extremes of either value or growth investing. It?s worth noting that we are not talking about owning a portfolio of stocks where some are growth and some are value but rather a portfolio of&#2013266080;stocks that on an individual basis have both value and growth characteristics. This is also not to say that you couldn't combine our value and dividend stocks with growth and value stocks as part of an overall investment strategy. The criteria for our GARP screen are:

- *Current P/E Divided By The 5-Year Average <= 5*
- *Percentage Change Of Next Years Estimates Over Last 12-Weeks >= 0*
- *P/E Using 12-Month Forward EPS Estimates <= 15*
- *5-Year Historical EPS Growth (%) >= 5*
- *Next 3-5 Years Estimated EPS Growth (%/Year) >= 5*
- *Rank = Strong Buy*
- *P/E Using 12-Month Forward EPS Estimate >= 8*

The table below are the 8-candidates which resulted from the latest screening.

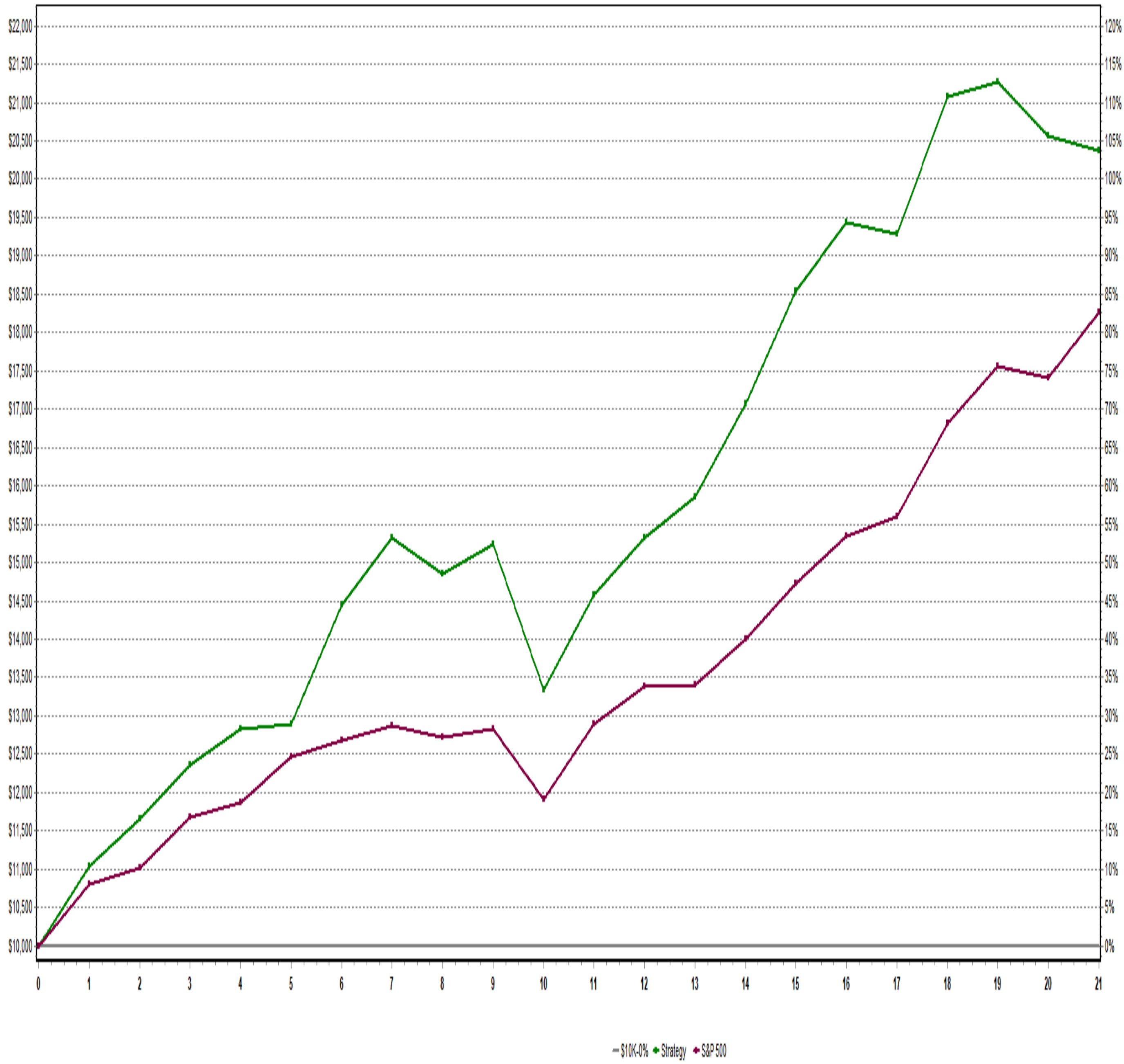
Company	Ticker	P/E (Current/ 5-Yr Avg)	% Chg F(1) Est - 12 Wks	P/E Using 12-Mth Fwd Est.	5 Yr Hist EPS Gr	Next 3-5 Yr Est EPS Gr Rate	Zacks Rank
OTHER CONSUMER DISCRETIONARY							
Mcbc Holdings	MCFT	1.12	5.16%	14.56	31.92%	15.00%	1
AUTOS-TIRES-TRUCKS							
Allison Transmn	ALSN	0.87	11.06%	11.52	9.45%	10.00%	1
STEEL							
Nucor Corp	NUE	0.60	14.98%	9.25	22.11%	12.00%	1
PAPER							
Stora Enso -Adr	SEOAY	1.00	10.49%	13.03	18.63%	11.86%	1
COMPUTER SOFTWARE-SERVICES							
J2 Global Inc	JCOM	0.86	3.67%	13.20	17.90%	8.00%	1
ELECTRONIC-SEMICONDUCTORS							
Vishay Intertec	VSH	0.73	11.55%	9.35	13.60%	9.16%	1
MISC TECHNOLOGY							
Nikon Corp Adr	NINOY	0.65	29.21%	14.44	18.67%	22.15%	1
INSURANCE							
Cigna Corp	CI	1.04	4.72%	13.63	11.80%	12.22%	1
Average		0.89	10.44%	12.94	18.01%	12.55%	1

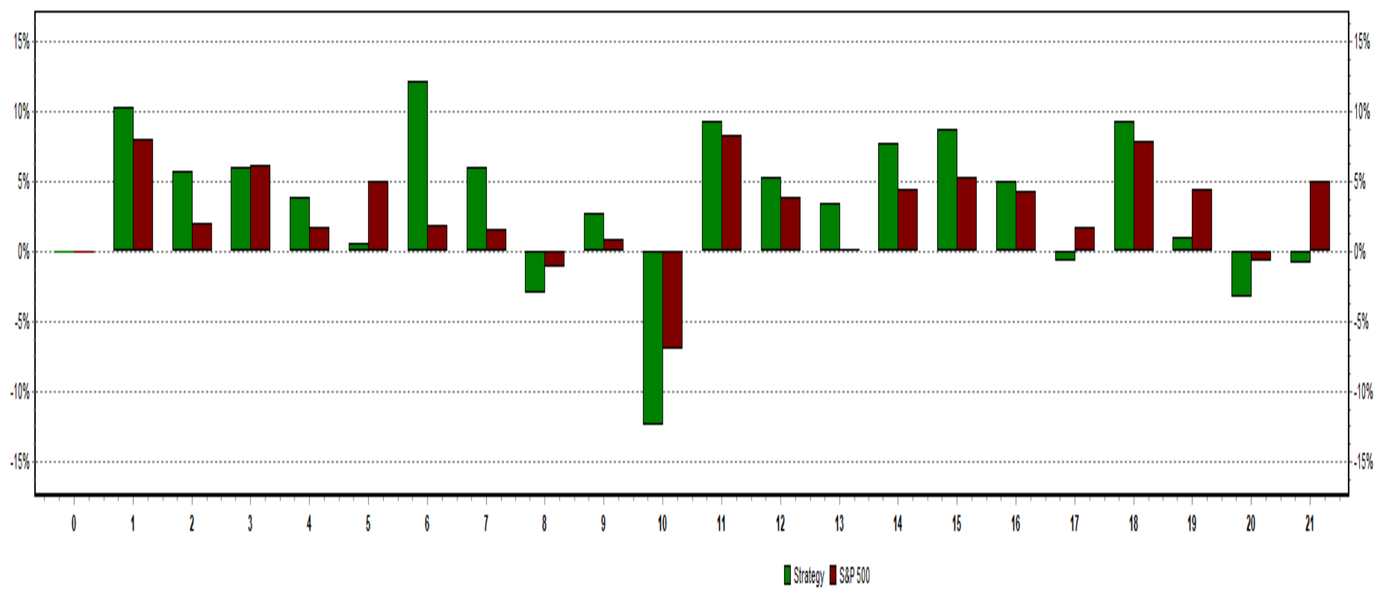
In a market that is fundamentally overvalued, buying value at a reasonable price is become more exceedingly difficult. However, in theory, buying stocks that exhibit both strong value and growth characteristics should yield an excess return over the market over time. The table below assumes that over the last 5-years you bought all the stocks yielded by the screen and rebalanced them quarterly.

> *(The number of holdings ranged from a low of 6 in July of 2016 to a maximum of 31 following the market rout in February of this year. The last period for the holding period was for May of 2018 which yielded 18 holdings.* ***Following the recent run-up, the number of holdings has been reduced to 8 which is the tied with the second lowest number of holdings since 2013. Note that low holdings preceded the market routs of 2015-2016 and 2018.)***

Period	Date	Companies in Portfolio	Tot Return of Portfolio %	S&P 500 Tot Return %	Excess Ret of Screen %	STATISTICS ex.: $10,000 start	Strategy	S&P 500
1	10/11/13	18	10.3	8.0	2.3	Total Compounded Return %	103.8%	82.6%
2	01/03/14	15	5.7	1.9	3.8	Total Compounded Return $	$20,383	$18,264
3	03/28/14	16	6.0	6.1	-0.2	Compounded Annual Growth Rate %	15.8%	13.2%
4	06/20/14	17	3.8	1.6	2.2	Win Ratio %	76%	86%
5	09/12/14	18	0.5	5.0	-4.5	Winning Periods/Total Periods	16 of 21	18 of 21
6	12/05/14	15	12.1	1.8	10.3	Avg. # of Stocks Held	14.5	
7	02/27/15	16	6.0	1.5	4.6	Avg. Periodic Turnover %	85.4%	

Over the 21-quarterly rebalancing periods the portfolio had an annualized return of 16.6% versus the 13.6% for the market. This 2.7% annual outperformance versus the S&P 500 is shown in the charts below.





Because a GARP strategy employs principles from both value and growth investing, the returns seen during certain market phases can be quite different that returns seen in a strict value or growth portfolio. However, as shown in the portfolio metrics, while a GARP strategy can provide outperformance over the index overtime, given proper risk management practices, but can have higher volatility because of the growth component. By combing this strategy with a dividend-income strategy as discussed last time, it is possible to smooth out some of the volatility while still maintaining returns. In short, the GARP strategy not only fuses growth and value stock-picking criteria, but also experiences a combination of their types of&#2013266080;returns. While a&#2013266080;value investor will do better in&#2013266080;bearish conditions; a growth investor will do better in a bull market; therefore, GARP investing should be rewarded with more consistent and predictable returns. **There is no doubt we are in a full-blown bull market currently. However, valuations are suggesting that returns may be significantly lower in the future making a GARP portfolio, and potentially one combined with a dividend strategy, much more beneficial.**

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One of the best known GARP investors was Peter Lynch, who has written several popular books, including *"One Up on Wall Street"* and *"Learn to Earn*." Of course, he was an investing legend due to his 29% average annual return over his 13-year stretch from 1977-1990 as manager of the Fidelity Magellan fund. Of course, the advantage to Peter Lynch was starting his run when valuations were deeply depressed at 7-9x earnings rather than 33x today. This is why, with valuation and safety being a top concern for our clients, especially with markets at all-time highs, we continue to believe that the best way for investors to generate capital is to invest in quality businesses trading at a reasonable discounts to their intrinsic value. As such, we focus on names which still maintain a reasonable valuation, are consistently growing, and are well founded in their industries.
