Nate's Notes

Issue 220 May 17, 2013

"bare bones" edition

	Since Last Issue	Year To Date	Since Inception 10/31/97
Model	**+9.1%**	**+17.0%**	**+727.3%**
Aggressive	**+21.0%**	**+32.7%**	**+1,479.5%**
DJIA	**+3.3%**	**+17.2%**	**+106.4%**
NASD	**+6.2%**	**+15.9%**	**+119.6%**

I love you, honey,
but I hate your friends...

– *Cheap Trick* / Rick Nielsen

"The Most-Hated Rally" Continues...

As you can see in the table above, thanks to stellar performances over the past couple of weeks from a number of the stocks we have patiently been building positions in over the past several months (Illumina, MannKind, and NVIDIA, to name just a few), both Portfolios seem to finally be "kicking it into gear" as the bull market begins to assert itself in a more meaningful manner.

To be sure, there are still a number of things that could derail the current rally (so many, in fact, that the vast majority of talking heads on CNBC and elsewhere are still cautioning to "wait for a pullback" before putting new money to work), but as discussed in these pages so many times over the years, our job is to position our Portfolios based on what the market is *actually* doing, not on what we think it should be doing… and, as you can see in the "Eyebrow Levels" table below, for the first time in a great while, all five major indices that I use to gauge the health of the overall market are finally flashing "bullish" signals at the same time!

Consequently (and "in summary," in order to leave room in this month's Commentary to discuss two other issues that have come up regularly in my email box lately), *please be as patient as possible when it comes to taking profits at this point in time – if you must, sell enough that you can sleep at night, but otherwise, "let your profits run" for now!*

Apple Redux (redux)

Not surprisingly, Apple continues to be one of the stocks I get asked about most often… and, while the current price action we are seeing in the stock is actually "exactly what we should expect to see" given how the fear-greed cycle almost always plays itself out on Wall Street, in order to help those of you who are getting anxious about your position feel a little more confident that the current opportunity is one worth sticking with (or taking a look at if you do not yet own the stock), I thought I would revisit the story yet again in order to put things in perspective and help you feel better about investing in what appears to me to be a tremendously easy way for you to double your money (or better) over the next several years.

To start with, let's just get out of the way again – no matter what, Tim Cook will *never* be Steve Jobs (and, just to be fair, it is unlikely that we will ever see anyone like Steve Jobs again in our lifetime, as he was arguably one of the most remarkable people the world has seen in the past century). That being said, Tim Cook is a very smart guy in his own right, and there is no reason at all that he can't be an effective and highly successful leader of a company… especially one that is in the position Apple currently finds itself in!

As famed fund manager David Tepper recently pointed out (slightly paraphrased), if Apple does something *revolutionary* from here, it will be end up being a wildly successful investment at current prices… but even if the company does something that is "only" evolutionary, it still has the potential to be "a very nice business."

Naturally, because smart phones are the hot item around which everyone is evaluating "the tech space" these days, this is the area in which everyone seems to be watching for Apple's next move...and given that Samsung has been wildly successful giving folks a plethora of screen sizes to choose from, everyone is assuming that Apple will go down this road as well.

Luckily for investors, if Apple does go down this evolutionary (vs. revolutionary) road and simply starts offering up its product across a myriad of screen sizes and price points, one of Tim Cook's greatest strengths has historically been "supply chain management"… and thus I believe the odds strongly suggest that the company will end up being a winner if it takes this path. In addition, even if the company stays true to its roots and decides to limit itself to a small number of high-end, "insanely great" offerings in the space, despite the fears being expressed by the talking heads on TV, there is currently no significant reason to believe that its historically loyal fan base is going to jump ship solely for the purpose of getting a larger screen (and one has to think that by now Apple is working on addressing "the larger screen issue" anyway).

As has already been pointed out elsewhere over the past couple of days (and providing additional evidence that Wall Street is currently in the "hate/fear" phase of the cycle when it comes to Apple), Apple's sale of 5 million iPhone 5s in three days following the launch of that product was hailed as a "massive disappointment," whereas Samsung's announcement that it is hoping to sell 10 million Galaxy S4 units in four weeks following that launch is considered a "wild success."

Of course, "just" an evolutionary step forward is actually the worst case scenario, and we would be foolish to ignore the possibility that Apple might actually do something *revolutionary* after all!

To be sure, it is getting more and more difficult to do something truly innovative on the hardware side of things (though everyone in the industry seems to be working on glasses, watches, TVs, etc. these days), *but...* Apple's strength has always been on the OS/software side of things, and with legendary designer Jony Ives now in charge of overseeing both hardware and software development at Apple, it would not surprise me at all if the company does, in fact, "pull a rabbit (of some sort) out of its hat" at the upcoming Apple developer's conference!

As stated a number of times before, with so many people currently calling Apple a “floundering ship under Tim Cook” (i.e. pretty much all the bad news is probably already “baked into the cake”), I believe it will only take a little bit of upside surprise in the outlook to trigger a fairly massive short-squeeze in the stock (as well as remind folks that the longer-term outlook really isn’t that bleak either!)… and, on the flip side, there probably is not a whole lot of room left to go on the downside if things do fail to materialize in a positive manner for the company.

Consequently, provided you are willing to be patient with your investment (i.e there may still be some rough sailing ahead… and, of course, there are never any guarantees that an optimistic outlook will be rewarded!), I believe we are now looking at a situation in which your downside risk is probably between $50 and $100 from current prices… whereas your upside potential is more in the range of $300-$800 (yes, I really do believe that Apple’s stock could still easily trade well north of $1,000 if the combination of Jony Ives’ imagination and Tim Cook’s methodical pace and level-headed approach to building out supply chains is, in fact, able to “deliver something special” in the years ahead)!

<u>How to get started with *Nate’s Notes*</u>

Along with questions about Apple from new and old subscribers alike, the other question I am asked most frequently by new subscribers is “how do I get started with newsletter?”… and so, for those of you who are new to the newsletter, I thought I’d take a moment to share a few thoughts on how you can most effectively go about building a portfolio based on my ideas and recommendations!

First off, decide how much of your overall portfolio you'd like to allocate to my ideas... *and then plan on investing it in roughly equal amounts each month over a period of several months (3–6 would be ideal).* Though you might be tempted to "just put it all to work at once," I'm a big believer in "scaling-in (or -out)" of stocks over a period of time rather than buying an entire position all at once, and thus you really are encouraged to be patient when it comes to putting your money to work.

That being said, how do you know which stocks to start with? Each month in the newsletter, I highlight "first buys" on the front page of the newsletter – however, please note that this table only appears in the "pretty" version of the newsletter, so make sure you download that version if you want to see that table (alternatively, you can get the same information by downloading the spreadsheet file that is available on the same page of the website as the monthly issue of the newsletter).

Please note that you don't have to buy all of the "first buys" every month – they simply represent the stocks that I find most attractive *for folks just starting to build their portfolios* at the time the issue goes to press... and thus they're are the ones I'm encouraging new subscribers to buy at that point in time. If you buy a few shares of 2–4 (or maybe even 5?) different ones each month, you'll gradually start to build nice positions in them over time.

Along with the “first buys” information, you'll notice there are also "core stocks" vs. "non-core stocks"... and I encourage people to invest slightly more money overall in the core stocks and a little less in the non-core. Yes, I believe they’re all good ideas, but the core stocks tend to be a little less speculative, and thus, over time, they are the ones you’ll want to own more of in terms of their relative weightings in your portfolio.

In addition, please keep in mind that I really do write the newsletter with a long-term, "whole portfolio" approach in mind, and thus you are encouraged to not spend a lot of time trying to trade stocks based on my recommendations (nor should you put all your eggs in just one or two baskets - i.e. by the time you finish deploying all of your "*Nate's Notes* capital," you should probably own at least five of the recommended stocks... and ideally you'll own eight or more).

Once you have finished putting this initial batch of capital to work, it then becomes a matter of personal choice in terms of what you buy next. Based on a subscriber survey I ran a little over a year ago, I was very surprised to learn that a few of my subscribers said they *only* invested in my biotech ideas (or just my semiconductor recommendations), and I also found it interesting how many people claimed to have a very strong bias towards buying mostly just core stocks or the non-core stocks (but not much of a mix of the two).

However, in response to requests from a number of subscribers awhile back, I started to include a "Top Picks" section in every month's issue… and, as the description below explains, it is always a list of my top three picks for subscribers who have already put together a nice basket of stocks and want to know where to allocate additional capital.

As always, if you are new to the newsletter (or even if you have been with me for awhile!) and you have any questions regarding the above collection of thoughts, please do not hesitate to contact me directly at Nate@NatesNotes.com.

Top Picks (for new money this month)

All else being equal (i.e. you already own "pretty much everything" in the newsletter), my top picks for you this month are:

Cubist (CBST) – the stock hasn't quite broken into new all-time high territory yet, but if it is able to do so in the current market environment, it ought run nicely for us as a whole new wave of investors jump on board!

Illumina (ILMN) – though the stock is clearly not as cheap as it was a month ago, it has a ton of momentum right now (and a great underlying story), and thus it represents a great stock to pick up.

Luminex (LMNX) – while it is still too early to declare a new uptrend to be in effect, this stock is demonstrating great relative strength and is long overdue for a breakout… and based on what is currently going on with the rest of the market, I believe the odds favor a nice move to the upside in the weeks ahead!

Outstanding Orders

For the reasons discussed above and below, the Model (Aggressive) Portfolio will **sell** 250 (700) PowerShares DB Ag. and 250 (700) PowerShares DB Cmdties. and **purchase** 1,000 Affymetrix, 200 (300) Cirrus Logic, 100 (200) Cubist, 200 (500) Luminex, 150 (300) Skyworks Solutions, and 25 (100) SPDR Gold Trust. We will use the closing prices on Monday, May 20th, for all transactions.

“Eyebrow Levels”

(used to help us gauge the overall health of the market)

Index	Bearish	Current	Bullish
DJIA	12,500	**15,354**	**13,500**
Nasdaq	2,775	**3,499**	**3,175**
S&P 500	1,325	**1,667**	**1,425**
BTK	1,300	**2,007**	**1,500**
SOX	390	**470**	**450**

Summary of Recommended Stocks

Affymetrix

While there is still a long ways to go before we can call the stock “back in an uptrend,” I do take some comfort in the fact that the stock dropped fairly sharply in response to the company’s most recent earnings report… but has managed to climb steadily higher since then. For the company’s first quarter, Affymetrix reported revenues of $77.9 million and a net loss of $15.4 million, or $0.22 per share, as compared to revenues of $65.2 million and a net loss of $4.2 million, or $0.06 per share, in last year’s first quarter. The company is clearly continuing to struggle, but as pointed out before, I believe that at current prices, the stock has a great risk-reward ratio. **AFFX remains a strong buy under $3 and a buy under $5.**

Apple

Though I will feel much better once the stock is back above $500, I continue to believe the price action we have seen over the past several months is exactly what “the script” says we should be seeing in terms of watching an over-loved stock become an under-loved one (and, in the process, give us a tremendous opportunity to load up on shares!). For the company’s second quarter, Apple reported revenues of $43.6 billion and net income of $9.5 billion, or $10.09 per share, as compared to revenues of $39.2 billion and net income of $11.6 billion, or $12.30 per share, in the same period a year ago. Even if you are only able to buy a few shares at a time, please do it! **AAPL is a strong buy under $425 and a buy under $475.**

Celgene

I am very pleased to report that Celgene’s stock has kept right on truckin’ after breaking through $100 a few months ago… and given the strong operating momentum currently in place at the company, it would not surprise me at all to see the trend continue! For the company’s first quarter, Celgene reported revenues of $1.46 billion and net income of $384.9 million, or $0.89 per share, as compared to revenues of $1.27 billion and net income of $401.5 million, or $0.90 per share, in last year’s first quarter. Along with Apple, this is another stock that new subscribers are encouraged to purchase first, even if you can only afford to buy a few shares at a time! **CELG is considered a strong buy under $110 and a buy under $130.**

Cirrus Logic

Along with many other stocks in the semiconductor space (and thanks to a decent earnings report late last month), I am pleased to report the Cirrus’ stock is finally showing some signs of bottoming (a critical step on its way to actually resuming an uptrend!). For the company’s fiscal 2013 (which ended March 30th), Cirrus reported revenues of $809.8 million and net income of $136.6 million, or $2.00 per share, as compared to revenues of $426.8 million and net income of just under $88 million, or $1.29 per share, in the previous year. Though it is still too early become *too* aggressive with the stock, I do believe it is time to once again start nibbling (albeit patiently)! **CRUS remains a strong buy under $20 and a buy under $24.**

Cubist

Though the stock has not yet managed to clear the $50-level, it sure looks like it wants to… and given what is going on with the company and biotech stocks in general these days, it would not surprise me at all if the breakout comes sooner rather than later! For the company’s first quarter, Cubist reported revenues of $229.9 million and net income of just over $6 million, or $0.09 per share, as compared to revenues of $211.7 million and net income of $32.8 million, or $0.45 per share in the same period a year ago (a quarter that included a number of one-time items – hence the wide variation in results!). Please be patient about taking profits if and when the stock breaks out! **CBST is now a strong buy under $47 and a buy under $52.**

Electronic Arts

Thanks to an earnings report that Wall Street clearly liked, EA’s stock gapped up nicely earlier this month… and, thus far, it has managed to hold on to virtually all of its gains! It has been a long, slow (and at times painful!) journey for shareholders over the past couple of years as both the company and the industry as a whole have worked on figuring out “mobile and social gaming,” but it looks like our patience is finally starting to pay off! However, while I believe it is quite likely that we will be adding more shares to both Portfolios over the course of the next several months, I am holding off with new purchases for now while we wait and see what sort of pullback we get in the stock. **EA is now a strong buy under $18 and a buy under $21.**

First Solar

As you can see in the chart to the right, First Solar’s stock has continued to march higher in the five weeks since last month’s issue went to press. For the company’s first quarter, First Solar reported revenues of $755.2 million and net income of $59.1 million, or $0.66 per share, as compared to revenues of $497.1 million and net loss of almost $450 million (due to restructuring charges) in the same period a year ago. I continue to believe that First Solar is one of the most well-positioned stocks in the solar space, and, as time goes by, I expect this leadership position to result in a larger and larger advantage when it comes to landing deals in the marketplace. **FSLR is now considered a strong buy under $40 and a buy under $48.**

Hambrecht & Quist Life Sciences Fund

While there has admittedly been some very odd trading activity in HQL's stock lately, I have not been able to find any news to account for the wild swings in stock price, and thus I believe the most likely explanation is simply that a couple of large institutions are "doing the dance" of figuring out what price they will eventually exchange a sizable block of stock at as one party gets out of their position and the other gets in (or adds to an existing position). The fund recently declared its next quarterly distribution, which will be for $0.34 per share and payable on June 28th to holders of record on May 28th. Especially for new subscribers, I am raising the buy limits a bit. **HQL is now considered a strong buy under $18 and a buy under $21.**

Illumina

As you can see in the chart to the right, Illumina's stock has been on a tear lately! And, once again, the reason for the great price action is the fact that Illumina's management team is finding to a way to "get it right" in the genome sequencing space while Affymetrix (and others) continue to struggle to gain any real traction. For the company's first quarter, Illumina reported revenues of $331 million and a net loss (which includes a number of special items) of $22.6 million, or $0.18 per share, as compared to revenues of $273 million and net income of $26.2 million, or $0.20 per share, in last year's first quarter. Again, please be patient about taking profits right now! **ILMN is considered a strong buy under $64 and a buy under $72.**

Luminex

Thanks to both a solid first quarter earnings report and (perhaps more importantly?) news that one of the company's directors recently purchased close to $1 million worth of stock in the open market at $17.20 per share, Luminex's stock is demonstrating the sort of price action that often (but not always!) precedes a significant move higher. For the company's first quarter, Luminex reported revenues of $53.2 million and a net loss of $2.5 million, or $0.06 per share, as compared to revenues of $48.7 million and net income of $3.5 million, or $0.09 per share, in the same period a year ago. New and existing shareholders alike should take a look at this one this month! **LMNX remains a strong buy under $17 and a buy under $20.**

MannKind

As discussed in last month's issue, while there are a number of possible explanations for the fantastic run MannKind's stock has made over the past several months (analyst upgrades, a less-bad-than-expected "earnings" report, etc.), the bottom line is that someone out there is buying an awful lot of stock – and though there are never any guarantees when it comes to clinical trials and FDA approvals, our job right now is to ride the trend rather than fight it! Both Portfolios already own "enough" based on the information that is currently available, but those of you who do not yet have a position may want to start a *small* one at current prices (the story is still *very* speculative!). **MNKD is now a strong buy under $4 and a buy under $6.**

NVIDIA

And, speaking of trends that are worth riding rather than fighting, I am also very pleased to report that NVIDIA's stock finally appears to be "catching a bid," as they say! As pointed out many times before, this stock has historically been one of the most volatile in the newsletter, and though you may be tempted to lock in some profits if you have been patiently building a position in the stock for the past several quarters, you are encouraged to sell only enough that you can once again sleep comfortably at night, as history suggests that this stock will likely go quite a bit higher (with pull-backs along the way, of course) before it finally runs out of steam – and I don't want you to miss out! **NVDA is a strong buy under $12 and a buy under $15.**

NXP Semiconductor

While I would ideally like to see NXP's stock above $32 before I get too excited that the stock is in "rally mode," I have to admit that the nearly straight up move the stock has made over the past four weeks following the release of the company's earnings last month certainly suggests there may not be many sellers left in the stock. For the company's first quarter, NXP reported revenues of just under $1.1 billion and non-GAAP net income of $186 million, or $0.72 per share, as compared to revenues of $978 million and non-GAAP net income of $57 million, or $0.10 per share, in the same period a year ago. Provided you already own at least a few of the core stocks, **NXPI is a strong buy under $30 and a buy under $34.**

Perry Ellis

Though the company is not due to report its earnings until next Thursday, a quick glance at the chart to the right reveals that the stock sure has been acting well ahead of the report. And, while I do consider this to be a piece of "bullish" evidence in my never-ending assessment of the market's health, I will also be the first to admit that the very thin float on Perry Ellis' stock means we have to take the signals it generates with a grain of salt. Those of you who are new to the letter are encouraged to take a look at this retail apparel company since it represents a bit of diversification away from the biotech and high-tech stocks that tend to dominate the newsletter. **PERY is now a strong buy under $18 and a buy under $21.**

PowerShares DB Agriculture

While I continue to believe that the out-of-control printing of money by central banks around the world over the past several years is going to eventually result in significantly higher commodity prices across the board, I will be the first to admit that the chart to the left cannot be classified as anything but "bearish" (and quite bearish at that!). Now that shares of this ETF have broken into new 52-week low territory, we have no choice but to watch and wait while nature runs its course – and, in this case, history suggests that means waiting until we see a trading day that involves both a large spike down in price *and* a significant spike up in volume. To be sure, that day *(continued under "DBC" below)* **DBA is now a buy under $25.**

PowerShares DB Commodities

(continuing from "DBA" above) may come as soon as Monday, but given how things are currently trading, it would not surprise me if we have several "slow melt" days before the big sell-off finally takes place. And, looking at the DBC chart to the right, it is nowhere near as bad as DBA's chart above… but it can hardly be called bullish either. This fact – along with my desire to add to our position in GLD without significantly increasing our overall exposure to "commodities" – is prompting me to sell a few shares of both these ETFs out of the Portfolios this month… and you may want to follow my lead (however, please note that I do fully anticipate we will buy these shares back at a later date!). **DBC is now a buy under $25.**

Skyworks Solutions

Thanks to a better-than-expected earnings report from the company last month, Skyworks' stock has rallied nicely over the past several weeks (though it still needs to get back above $26 to really convince me that a new uptrend is underway). For the company's second quarter, Skyworks reported revenues of $425.2 million and net income of $61.7 million, or $0.32 per share, as compared to revenues of $364.7 and net income of $34.0 million, or $.18 per share, in the same period a year ago. Because it is still one of our smaller positions (and the chip sector is finally showing some signs of life!), I am adding a few more shares to both Portfolios this month. **SWKS is considered a strong buy under $22 and a buy under $25.**

SPDR Gold Trust ETF

As you can see in the chart to the right, after gapping down dramatically right after last month's issue went to press ("as expected"), the price of gold rallied for a bit… but is once again losing altitude in a hurry! And, while I want to caution you that IF the lows of last month are taken out in the days ahead, it is quite likely that the price of gold will lose at least another 10% from current levels as part of the sell-off, I continue to believe the plunge will be fairly short-lived (and will actually help set the stage for a fairly nice rally once the panic-selling has run its course). Consequently, I am taking advantage of the current situation to add a few more shares to both Portfolios this month, and **GLD is now considered a buy under $140.**

TriQuint

Despite delivering a somewhat ugly earnings report last month, TriQuint's stock has been flying lately (further bolstered by recent news that the company announced a $75 million share repurchase program). For the company's first quarter, TriQuint reported revenues of $184.2 million and a net loss of $27.9 million, or $0.17 per share, as compared to revenues of $216.7 million and net income of $1.9 million, or $0.01 per share, in last year's first quarter. I am raising the buy limits a bit this month to give new subscribers a chance to get in on the story, but you are encouraged to be patient with new purchases (and make sure you buy some core stocks first!). **TQNT is considered a strong buy under $5 and a buy under $7.**

Walt Disney Co.

While the stock is clearly due for a pullback after the great run it has made over the past six months or so, it is hard to argue with the idea that there are currently a lot more buyers than sellers of this stock right now! For the company's second quarter, Disney reported revenues of just under $10.6 billion and net income of $1.5 billion, or $0.83 per share, as compared to revenues of roughly $9.6 billion and net income of $1.1 billion, or $0.63 per share, in the same period a year ago. Though Portfolios already own "enough" Disney for now, I am raising the buy limits a bit this month and encourage you to start a position if the opportunity presents itself. **DIS is now considered a strong buy under $60 and a buy under $65.**

Reminder: All of the Portfolio information usually found in tabular form in the newsletter can be downloaded from the website as small Excel files in the ***Stock & Option Picks → Nate's Notes Newsletter*** → (***Portfolio at-a-glance*** and ***Covered Call Portfolio***) menus.

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