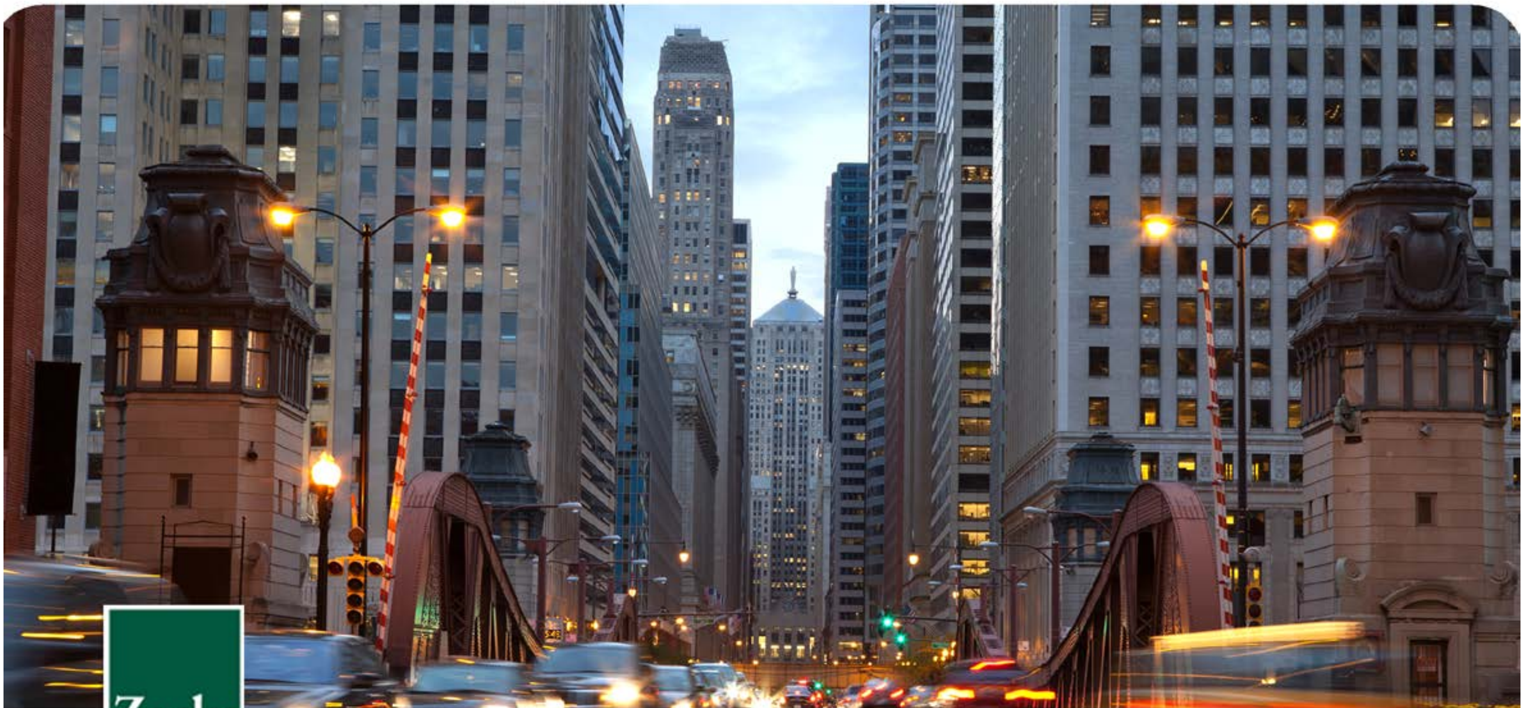

Zacks INVESTMENT MANAGEMENT

Market Insights by Mitch Zacks

Bargain Hunting for Stocks

By Mitch Zacks
Senior Portfolio Manager

The market's recent flare-up – or flare-'down' – has created three camps in the investor community: those who have turned bearish, those who have become nervous enough to reduce their equity exposure, and those who remain bullish over the longer term and see this as an opportunity. I'm in the last camp.

And, I'm writing this week to remind investors that they should view market corrections as strategic opportunities. They often give you a chance to enter names or sectors that you think have been oversold and have strong earnings potential over the next six to twelve months.

But, I want to be clear: I am not declaring this correction to be over, nor am I advocating market timing as an investment philosophy. On the contrary, I think the correction probably isn't over yet, and I consistently encourage investors to invest for the long-term. This means not getting discouraged by the downdrafts, and not becoming overzealous every time the market posts outsized returns. At the same time, if you have cash available and the market takes a sharp decline that, in my view, isn't based on a fundamental meltdown, then it could present a unique opportunity. And, that's what I see here.

Below I'll give you three market sectors that Zacks Investment Management believes are good values at this stage in the bull market. If you are under-allocated to any of these three sectors – or do not have any exposure to them at all – then you should think about whether they can play a bigger role in your portfolio.

A Quick Economic Review

Before I discuss attractive sectors, let me first make a quick case for this being a market correction and not a bear market. Data from the U.S. has been encouraging, yet largely unsung in the media (no surprise). Summer payroll, retail, and construction reports show the economy kicking up softly. The U.S. payroll report for August came in at +173K jobs on a first look, and the unemployment rate fell to 5.1%. And, this is not isolated improvement; it's part of a greater trend - monthly 2014 job adds were +10% above 2013.

Final Q2 2015 GDP grew +3.7%, well above a +2.3% initial read. Consumption growth (which matters to stocks) grew +3.1% in the second quarter. From here, we expect modest but not disappointing GDP growth for the U.S., with +2.5% as our base case.

As for U.S. stocks, fears of a 'Chinese contagion' should be tempered by two factors: 1) only 10% of S&P 500 revenues are tied to Asia; and, 2) the slowdown is probably not going to be as deep as most fear. If China's growth slows even to just 6% on year, they are still contributing a huge amount to global GDP.

Before the sell-off, the S&P 500 traded at 16.6x forward earnings vs. a 10-year average of 14.1x. But, consider that in the late 1990's they traded north of 20x for a couple of years and stocks still thrived. In my view, this bull market is like it was then – mature, but not dead.

3 Sectors that Look Attractive Right Now

Consumer Discretionary – we think that leadership is shifting to the Autos, Non-food Retail/Wholesale, and Home Furnishings-Appliances spaces. Apparel/Retail is market neutral for us but still attractive, while we see Consumer Electronics as the weakest industry in the group.

Health Care – Health Care's run has been fairly remarkable over the last twelve months, and the Affordable Care Act's recent upholding in the Supreme Court appears to be the last battle that will be waged against it. Insurance companies have been scrambling to merge to control costs and stay competitive, and stocks have been climbing apace as anticipated demand for care across all demographics grows. All three industry groups (Medical Care, Drugs, and Medical Products) look solid.

Utilities – this marks an upgrade to our view of the sector, which is coming off fairly weak relative performance of late. We see a gradual flight to making portfolios more defensive, which benefits Utilities. We like the Utilities-Gas Distribution space.

Bottom Line for Investors

Investors should expect the volatility (both downside and upside) to continue from here, perhaps for the balance of the year. Downside volatility can present unique buying opportunities, but that does not mean investors should make a habit of trying to predict how long the correction might last. In other words, don't try to time the market. If sectors and stocks you've been eyeing just got a lot cheaper, and you feel as good as I do about the six to twelve month outlook, then it could make sense to put sidelined money to work.

-Best Regards,

Mitch

About Mitch Zacks

Mitch is a Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

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