Forbes

Randy Warren Contributor

I write about financial markets and the world of investing

INVESTING 12/08/2016 @ 4:12PM | 32,830 views

7 Stock Moves To Watch In 2017: Chipotle, Under Armour And More

Wouldn't it be nice to know what will happen to stocks next year? So, we thought it would be useful to try to pick out 7 stocks that could have shocking moves in 2017.

We started by sifting through the rubble of 2016. Which stocks were hurt in 2016 and have an excellent chance to rebound in 2017?

Then we looked at sectors and tried to determine which sectors have a good chance of moving higher. The reason to look at sectors and not just individual equities is that sector movement generally makes up about 80% of all individual stock movement. So, in effect, the best stocks to own are those that are:

1. Stocks in the best sectors
2. The best individual stocks in those best sectors
3. Possibly, the best stocks from 2016 that were beaten down and have an excellent chance to rebound in 2017

Not necessarily in any order...

(Photo by Andrew Renneisen/Getty Images)

Chipotle Mexican Grill has truly taken a beating. The food poisoning scandals hit them hard. Chipotle stock hit its high point Aug 5, 2015 at $757.77 per share. Since then, it's been all downhill. And for good reason! When a restaurant can't control bacteria and virus contamination in its food or food sources, people stop eating there. Chipotle experienced numerous outbreaks from Novovirus, two E. coli outbreaks, and the Salmonella outbreak in Minnesota. These events sickened well over 450 people. The outbreaks began on Aug 20th, 2015. Note that earnings peaked slightly after the illnesses became known. On Oct 20, 2015, CMG reported $4.59/share earnings for the quarter. Earnings began to drop off hitting a low in April 2016 showing a loss of $-0.88. Recently earnings have rebounded to $0.27 on Oct 25, 2016.

Chipotle is not back. But it is on the way back. Remember what made this company great. At one point in time, this company was doing same-store-sales in the mid-teens percentage. Can they get the growth back? Yes. We believe they will, but it will take some more time. They are recovering. They have fixed the problems and implemented new policies and procedures so it doesn't happen again. Chipotle will likely recover in 2017 to somewhere in the $550/share area and continue to grow from there. Given that it currently trades at only $364/share that represents a potential gain of 51%.

Under Armour has had a rough 2016. But the important thing to note about UAA is that most of the problems are perceived, not realized.

The swoon in the overall stock market in Jan/Feb of 2016 dragged them down significantly. Just after the swoon, the news broke that several key executives were leaving. And perhaps worst of all, as earnings were announced, the discussion became about margin. UAA was planning to invest more heavily in the business which could drag down profit margins. Short sighted investors see this as a negative. Long term investors see this as a positive. But the short sighted were the definite winners in 2016 as the stock continued to struggle. But UAA still has the growth. Most importantly UAA still has Kevin Plank. Expect the stock to rebound to $50 in 2017 which represents a 66% potential gain.

Nvidia has boomed in 2016. The thesis is that Nvidia has a corner on the market for semi chips that are particularly good at real world problems, specifically automating self-driving cars. This technology can be used for lots of other applications as well. Amazon is rolling out the idea of a system where you scan your phone when you enter a store, then the real-world system tracks the things you buy and puts them in your Amazon virtual shopping cart. You just shop and go. No lines, no checkouts. The technology simply knows what you put in your real shopping cart. Solving real world problems. Our predication is that while we love Nvidia right now, it will crater in 2017. Before the swoon, it will continue to soar to new heights of maybe $140/share. But at some point Nvidia will get too expensive and cooler heads will prevail causing the stock to sell off down to about $70/share which represents a 24% loss from where it trades today. This technology is truly revolutionary, so either get in now (and ride the wild chart), or wait for a better entry point. But your portfolio will benefit in the long run from this stock.

Airlines will boom again in 2017. This is a volatile group simply because investors don't believe that airlines can make money. But those doubts must be shattered by the reality that these companies are raking in the money. Oil is cheap, so jet fuel is cheap! Jet fuel is about 50% of the cost of running an airline. Because of investor skepticism, the benefits to the airline group of cheap oil have yet to begin to accrue. In the past 12 months, rolling 4-quarter earnings at Southwest Airlines are up 22% while the stock is only up 13%. The benefits of cheap oil are not going away. Yes, oil companies have learned how to become profitable at these levels, but airlines are the major beneficiaries. We believe that American Airlines, Delta Air Lines and Southwest could all rise to the $60/share range representing about a 28% return to investors.

Ulta Salon is already a growth stock and with same store sales in the mid-teens percent (discussed during the recently announced earnings) this company is the new Chipotle (during their heyday of course)! You just don't see same store sales in the mid to upper teens. This is a rockin retail story led by a woman named Mary Dillon who really is revolutionizing the beauty business. Long gone are the days of having to wade through the perfume counter at the department store – yuck! Let's be honest. For men, this is not a fun experience. And for women, they probably don't want men hanging around while they are trying on makeup and perfume anyway. Ulta takes the beauty department out of the department store and adds numerous fixes to create a "sticky" customer environment, such as regular maintenance items that women will need anyway including mani-pedi and hair styling. What a great idea. Expect this stock to continue to rise well above $300/share in 2017 representing at least a 20% gain for investors.

Banks! Are you kidding? This group is on fire since the election and it won't stop anytime soon. Banks have been in the dumps of Wall Street for 10 YEARS (10-year chart of Bank of America shown below). That's right, ten years! That is a long time in purgatory. It's time for interest rates to finally rise and growth in America to accelerate. Banks are the primary beneficiaries. Expect Bank of America (BAC), Citigroup, JPMorgan Chase and Wells Fargo to all do well in 2017. To get exposure to the whole group, consider the ETF, ticker symbol XLF.

Regional Banks. You can see tremendous growth from Regions Financial, KeyCorp, and PNC Financial. Again, to get exposure to the whole group consider the ETF, KRE. We think regionals are safer than the big banks. Even though the big banks will definitely benefit from rising rates (and the ability to finally loan out money and get a decent return), there is a risk to the big banks that the Trump administration may want to break them up. So, the good story here is the repeal and replace of Dodd Frank regulations, but the threat is that they may actually have to break into smaller banks (the replacement part of repeal-replace). This may not be all bad. Remember how well investors did when the government de-regulated AT&T and investors ended up with all those baby-bell stocks. The spin offs made investors a fortune. Collectively this group should see at least a 20% stock price appreciation in 2017 and perhaps more.

10 Year Chart of BAC

All in all, we didn't give you just 7 names for investing next year, this piece supplied you with

16 names you should have in your portfolio. Growth will always be king on Wall Street! Be careful out there and consult your own advisor first.

Disclosures: *Warren Financial has long positions in some of the stocks mentioned in this article both for our clients and our own portfolios. We may be starting new long positions in some of these companies in the future. The fact that a company is mentioned is not a recommendation or offer to buy or sell that stock or bond. Investors should always seek advice from an advisor that knows their particular financial situation and not assume that general information such as the information in this article will apply directly to their portfolio. Investing includes the risk of loss. For more information on how to protect your investments from volatility, visit www.WarrenFinancial.com and make sure to investigate our volatility strategies.*

RECOMMENDED BY FORBES

Where's The Growth In The Post-Election Cycle?

It's Time For Earnings To Back-up The New US Growth Story

The Fed Has An Irrational Fear Of Growth And Inflation

Why Airlines Should Raise Their Dividends And Retailers Shouldn't

The Richest Person In Every State

The Real 'Fake News' Is The Mainstream Media

The World's Highest-Paid Actors 2016

Super Mario Run Is Coming To Ios On December 15