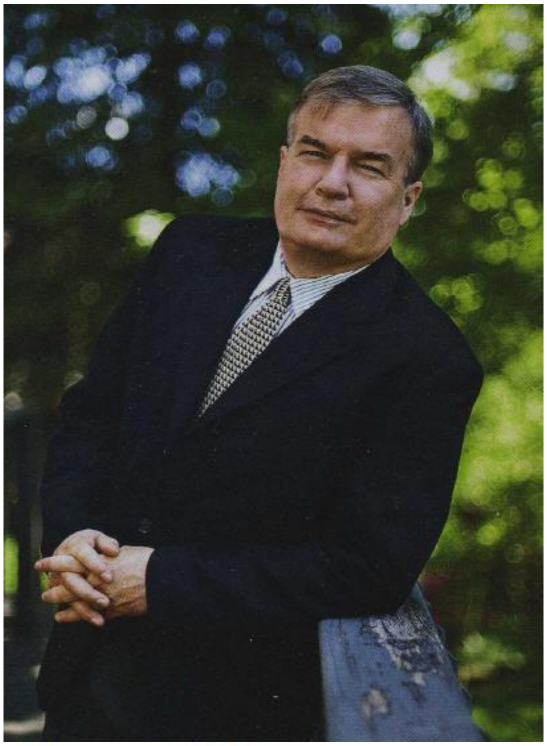
REPRINTED FROM:
JUNE 26, 2017

BARRON'S

4 Undervalued Stocks in an Overpriced Market

Contrarian manager Alan Lancz has an eye for bargains. He likes Fitbit, Crocs, Occidental, and Twitter.

By
JOHANNA BENNETT
June 20, 2017 7:27 a.m. ET



Name:	Alan B. Lancz
Age:	58
Title:	Founder and president of Alan B. Lancz & Associates; director of research at LanczGlobal

Three weeks ago, Amazon.com ascended to $1,000 a share, rarefied air for even this tech titan, only to lose its footing earlier this month as a surprise rotation out of tech stocks shook the major benchmarks.

Alan Lancz was not among those selling the megacap tech names. As a disciple of the famed contrarian investor Sir John Templeton, Lancz, founder and president of the Toledo, Ohio-based investment advisory firm Alan B. Lancz & Associates, is not afraid to go against the flow. He takes profits when euphoria overtakes a stock and looks for beaten-down bargains. But while he thinks the broader technology sector is looking a bit frothy, he isn't ready to cull his positions in the so-called FAANG stocks — Facebook (ticker: FB), Amazon.com (AMZN), Apple (AAPL), and Google parent Alphabet (GOOGL) — at least not yet.

"Investing is like a pendulum," Lancz says. "It doesn't swing from undervalued to fairly valued. When things go well for a company, it swings from undervalued to fairly valued to overvalued. Instead of automatically selling, we are monitoring things closely."

That's not to say Lancz, 58, doesn't see cause for caution about U.S. stocks. With the Dow Jones Industrial Average and the Standard & Poor's 500 index at or near their all-time highs, he's recommending that investors build cash positions.

Still, Lancz says, the current environment isn't a repeat of 2007, when he suggested aggressive selling a few months before the S&P 500 hit a new high and proceeded to lose half its value. He sees select opportunities, such as the beaten-down shares of Fitbit (FIT) and Crocs (CROX), and he's recently bought shares of Occidental Petroleum (OXY). In business since 1982, Lancz manages $200 million in assets for high-net-worth clients. His stock-picking methodology is fairly simple: Look for underappreciated or oversold names with strong management, good cash flow, and the potential for upside three or four times bigger than the downside risk, based on his analysis.

This straightforward approach led Lancz to buy Facebook in the low teens, when it was out of favor. The stock recently traded over $150. In December, he recommended power generator Calpine (CPN) and watched it surge more than 30% in May when the company was reported to be exploring a sale. CenturyLink (CTL) had fallen 31% last year when he labeled the stock a top pick for 2017, a call that was echoed last month by Corvex Management's Keith Meister at the Sohn Investment Conference.

Then there's his turnabout on Apple. After suggesting that clients sell the tech titan in September 2012 when the stock had hit a split-adjusted $100, Lancz reversed course some six months later, after the shares fell 40%. Recently, the stock fetched $144 a share. Lancz recently talked with Barrons.com about his view of the market, why he's begun looking at energy stocks, and his affection for big-cap European drugmakers. Below are some excerpts from our conversation.

Barrons.com: *You have large positions in Amazon, Facebook, Alphabet, and Apple. Have you begun selling these shares?*

Lancz: We have not sold them yet, but we are also not chasing them. In fact, the last time I bought one of these stocks was when Apple broke $90 a share more than a year ago. The easy thing to do right now is to take at least partial profits, and typically, that is what we do. But our aim with these big tech names is to not leave quite so much money on the table.

The environment is very different today than it was in 1999, when we warned clients about overvalued technology and telecom stocks. These companies have great cash flows and great earnings. There is a lot of momentum, a good deal of cash on the sidelines, and some exciting things going on in the artificial-intelligence front. Share prices could climb higher in the next few months. So we are trying to ride the wave. That could certainly change in a few weeks or by the end of the summer. We are watching the stocks very closely, and could pull the trigger and begin taking partial profits fairly quickly.

Q: *Were you nervous about the Nasdaq's recent two-day selloff?*
A: Pullbacks are healthy for the overall market. Due to the large amounts of cash sitting on the sidelines, the selloff was short lived—a two-day drop of 2% and not a 10% multiweek correction. A correction will occur when the pendulum has truly swung to the extreme, and by then we will hopefully have reduced our positions.

Q: *What's your view on the tech sector in general?*
A: On a broad basis, the sector is starting to look overvalued. Yes, it could climb higher due to momentum and the large amount of cash that is now sitting on the sidelines. You can certainly make an argument that Apple and Amazon are fairly valued at recent prices. Still, to us, the broad sector is showing more risk than reward, though we have found select opportunities.

Q: *Such as?*
A: The cybersecurity firm Symantec (SYMC) is one. We were buying the stock earlier this year in the low $20s, but haven't purchased any shares lately. The company made some acquisitions, but the stock hasn't done that much. But Symantec is a name we would buy into weakness. I like the cybersecurity space, and Symantec is well positioned in it. If the share price falls, it is a stock we might buy when we start taking profits in those iconic tech stocks.

Q: *Let's turn to the broader market. What's your outlook for the S&P 500?*
A: We're getting a little bit more cautious on U.S. stocks, what with the difficulty President Trump has had progressing with his agenda, and with rising interest rates. For the stock market to keep rising as it has been, things will have to fall into place just so, and I don't see that happening. So we've started taking profits and raising cash levels. We are still finding pockets of opportunity, but we would be cautious about chasing some of the iconic highflying names.

Q: *How much cash do you recommend investors hold right now?*

A: Our average recommendation is in the area of 10% to 15% in cash. We have just started building up cash positions, so we are not there yet. If the market rallies over the summer, our recommendation is to be at the high end of that range. If the market declines and we find bargains, then we will be at the low end of that range, in general.

Q: *What allocation do you recommend for other assets classes?*
A: We recommend a similar allocation—10% to 15%—in fixed income, namely munis and select corporate bonds. The balance of the portfolio should be in equities. It's worth noting that our exposure to international stocks is higher than it has been in a number of years.

Q: *Why?*
A: We started looking at Europe last summer. Valuations were much lower for some big firms compared to their U.S. counterparts, despite stronger growth prospects, which meant a better risk-reward outlook. As other investors caught on to the trend, international stocks, particularly European ones, outperformed the U.S. I see that outperformance continuing at least through the balance of 2017, and perhaps into next year.

Q: *What is your best international stock pick?*
A: We like health care. I think many of the European pharmaceutical stocks fetch lower valuations than their U.S. peers and the companies offer as good, if not better growth prospects. Our latest purchases were Switzerland's Roche Holding (RHHBY) and the British drugmaker GlaxoSmithKline (GSK). Both stocks have moved higher since then, so we recommend only buying into weakness.

Q: *Is the political turmoil in Europe cause for concern?*
A: A lot of that is already in valuations.

Q: *Are you still underweight energy stocks?*
A: We've started looking at energy for the first time in a while. We bought Occidental Petroleum earlier this month in the high $50s. The shares, which traded near $100 roughly three years ago, are down a good deal and could move lower still, so we are slowly accumulating a position. It's a speculative play. The stock pays a nearly 5% dividend, and if the shares keep falling, it could be a takeout target.

Lancz Likes	
Company/Ticker	**Recent Price**
FitBit/ FIT	$5.02
Crocs/ CROX	7.17
Occidental Petroleum/ OXY	60.01
Twitter/ TWTR	16.91
Lancz Pans	
Company/Ticker	**Recent Price**
iRobot/ IRBT	$97.73

Q: *What else are you buying?*
A: There are other names that have fallen in value by half or more to what we think are attractive levels, including Fitbit and Crocs. Because the megacap tech names were so in favor for much of 2017, some of these smaller companies fell between the cracks, but are starting to offer opportunities. The small-cap-focused Russell 2000 is only up 5% for the year, while the Nasdaq has climbed 16%. So we are starting to pick up some companies in this area.

Q: *Twitter (TWTR) is another name you've accumulated of late. Why?*
A: It's another good example of an out-of-favor name that could offer more opportunity than chasing after a megacap like Apple. Now is the time to accumulate Twitter on weakness. The assets are there, but the company needs to monetize them. Also, with President Trump using Twitter so often, it has refocused attention on the company.

Q: *Which stocks are you selling?*
A: We've begun taking partial profits in some of the financials, some of the smaller tech companies, and even some of the internationals. These are big positions that have done very well, and it is part of our push to raise our cash position. We are also selling iRobot (IRBT). We have purchased the shares over the past few years, when the stock has been in the $30s, and the share price recently climbed above $100. The stock has hit on all cylinders, but expectations went so high that it makes sense to take some profits.

Q: *Thank you for your time.*

Interview initially seen on Barrons.com June 20, 2017, 7:27 am ET then Barron's magazine dated June 26,2017