

# Frazier's Strategic Allocator

*Avoid the big downturns and profit from the upturns*



## Trade Alert

January 1, 2014

### CORE INVESTMENT PORTFOLIO

**Action:** Buy Ford

Ticker Symbol: F

Buy Price: AT the Market

Allocation: 5% of the amount of your financial market assets that you plan to allocate to your mid- and/or long-term investment holdings.

### SPECULATIVE PORTFOLIO

**Action:** Buy Ford

Ticker Symbol: F

Buy Price: AT the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Dear Member,

Ford (F) took a big hit on December 18 after the company announced that it expects its pre-tax profit, excluding special items, to decline to \$7-\$8 billion for the year ending December 31, 2014, from approximately \$8.5 billion during the current year – an estimated drop of 5.9%-11.8%.

That announcement came as a big surprise to many investors and stock market speculators, with Wall Street analysts expecting at that time that Ford would earn a pre-tax profit of approximately \$9.5 billion and a net income of \$1.83 per diluted share for the year ending December 31, 2014.

While some stock market participants are now concerned that Ford's stock might fall further, I see the 7.6% decline in the company's stock over the past 7 trading sessions as a welcomed opportunity to establish a position in Ford at a favorable price. That's because my research suggests that the year 2014 will be positive transitioning year for Ford in a way similar to the period from 2005-2008 when the company implemented numerous restructuring initiatives and invested heavily in developing new vehicles.

Largely because of those investments and restructuring activities, Ford was able to increase its share of the global auto market over the past five years and to grow its revenues by approximately 25% since the beginning of 2010.

Even more impressive, the company was able to grow its pre-tax profit by approximately 181% from the beginning of 2010 to the end of 2012. Over that same two-year period, Ford doubled its pre-tax earnings per diluted share, to \$2.02 for the year ended December 31, 2012, from \$1.01 for the year ended December 31, 2009.

During the nine months ended September 30, 2013, the company's operating performance improved further, with its revenues rising by 12.3% and its cash flows from operating activities rising by 7.7%, as compared to the same period a year ago.

According to a press release issued by Ford on December 18, the company is estimating that its profits rose by approximately 10.1% during 2013, as compared to the prior year.

In regard to the company's financial condition, Ford is much more liquid than its competitors, with its current assets, excluding inventories, covering its current liabilities by a ratio of 2.1-to-1 as of the company's latest quarter ended September 30, 2013. In comparison, General Motors' current assets, excluding inventories, covered its current liabilities by a margin of only 1.05 as of that same date.

And, in spite of the fact that Ford did not accept any financial bailout funds from the U.S. government – like General Motors and Chrysler did during 2008 – the company improved its financial condition considerably over the past few years. For example, Ford reduced the underfunded status of its global pension plans by almost 50% during the first nine months of this year, as compared to the year ended December 31, 2012. As a result of those cuts, the company will need substantially less cash over the next three years to fund its global pension plans.

Ford also completed a voluntary lump sum payment plan to employees who decided to accept the company's early retirement offering that began during 2012. Specifically, Ford made payments to approximately 35,000 employees, representing 37% of its eligible workforce, settling \$4.2 billion in obligations or about 25 percent of the company's related liability.

Looking ahead, Ford plans to embark on its most aggressive product launch schedule in the company's history by introducing 23 all-new or significantly-refreshed vehicles around the world – more than double the number of vehicles that the company launched during the current year.

Although I expect those new offerings to enable Ford to increase its revenues and earnings substantially during 2015, the company's executives said on December 18 that they expect the investments required for those new vehicles to lead to a decline in the company's profits during 2014. Specifically, Ford said that it expects the company's pre-tax profit to fall to \$7 billion to \$8 billion during 2014, from an estimated profit of \$8.5 billion for the year ending December 31, 2013.

With my research indicating that the pace of economic growth in most regions of the world will increase during the coming year, and that Ford is being conservative in its 2014 earnings projections, I advise you to establish a position in Ford in accordance with the trade instructions outlined above.



**David N. Frazier**

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Frazier & Mayer Research, LLC  
dba TheMarketMonk.com

A handwritten signature in dark ink that reads "David N. Frazier". The signature is written in a cursive, flowing style.

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