



ALL EARS!!

The Litchfield Fund Weekly Newsletter

"We just don't hear it on the street, we have our ears spread across all the fields!!!!!"



Litchfield

Hippocrates is considered to be the "Father of Western Medicine." Most of what we know about Hippocrates comes from the writings of his students who practiced his teachings & historians who separated mythical legend (his daughter was a dragon) from fact. And we know that the Hippocratic Oath was not written in stone. In fact, the phrase people associate with the Oath -- *First, do no harm* -- is not in any version of the Oath, in ancient or modern times. So perhaps we should create a new oath for the Federal Reserve leaders currently considering an end-of-year rate hike. It would begin, "*First, do no harm!*"

First, do no harm: Will an interest rate hike hurt this blasé economic recovery? Here is something to think about. The last time the FED raised rates your smartphone was a Blackberry, you may have been driving a Hybrid but Tesla had not yet delivered an all-electric car, Penny had not moved in across the hall from Sheldon & Leonard, Walter White was happily teaching Chemistry, your college-bound high school senior had just completed 2nd grade, your house was probably worth one and a half times what it is today, and the current leader-of-the-free world was the rookie junior senator from Illinois.

Next month, the FED will likely take a 'do something' as opposed to a 'do nothing' approach. The overwhelming concern is strong employment growth, though the FED seems to underplay stagnant wage growth. A higher interest rate certainly won't help retailers, exporters, emerging & fragile economies & an already glutted oil industry. It may lower aggregate demand, hinder an already burdened manufacturing sector, & slow GDP growth. It will reduce the value investors see in expected future earnings. But it will help those cash-plenty companies with weak competition (Google). So a rising interest rate environment increases the likelihood & impact of a recession. Let's hope the FED decision makers remember The Great Recession was preceded by a period of rate hikes from June, 2004 to June, 2006. Let's worry if they use *Yahoo* to search for *The Great Recession* on their *Blackberries*.

Industry news: The importance of proper labeling & transparency is in focus again this week as General Mills (**GIS**) finds itself facing a lawsuit over its *Cheerios Protein* product. The suit maintains that *Cheerios Protein* has just a bit more protein than regular Cheerios but a much, much higher sugar level. We like what **GIS** is doing to reshape itself to meet changing consumer demands and if this claim turns out to be accurate, it is a great example of how companies need to approach making claims & branding their products. There certainly is an

overabundance of frivolous lawsuits, but transparency, from labeling through the entire sourcing & production process, is now a *consumer requirement*. Big Food needs to understand this (we believe **GIS** does) if they are to gain confidence from millennials & overcome stagnant conventional product growth. Meanwhile, protestors are gathering today to push **GIS** to support GMO labeling bills. **GIS** has previously put GMO concerns up for vote among its stockholders, who took little interest in **GIS**'s attempts to move forward. Here is hope that **GIS** will take the path of CVS & make a drastic move that would support labeling, transparency, & perhaps even GMO removal from its products despite the impact to the bottom line. Such a move would go far to gain the support of consumers.

Earnings News: Lifeway Foods (**LWAY**) reported slightly lower 3rd QTR EPS coming in at 5¢ compared to 6¢ for the same quarter last year. While they had slightly lower revenue & additional promotional costs, Gross Margin was up 5% due to lower milk prices. Earnings were impacted by the costs & professional fees associated with the SEC reporting delays in the first half of the year. Whitewave foods (**WWAV**) reported 17% growth & its first \$1B revenue QTR. Despite the strong dollar, seasonality issues with its fresh food products & carrying acquisition debt, **WWAV** was strong on all fronts & increased its full year guidance.

Portfolio News: Analysts expect a 3¢ EPS from Zoe's Kitchen (**ZOES**) when they report 3rd QTR earnings next week, keeping earnings in positive territory. United Natural Foods (**UNFI**) continues to see a stock price decline despite its analyst recommendations & price targets (\$55). Some analysts are forecasting a decline in EPS when **UNFI** reports earnings in 2 weeks. However, the stock right now appears to be undervalued & oversold. Kroger (**KR**) announced the \$800M purchase of 150+ Roundy's Supermarkets in the Midwest. Despite better than average market growth, Hain Celestial (**HAIN**) saw a falling stock price. Only two of **HAIN**'s many lines, MaraNatha & Spectrum, actually put a drag on earnings.

Seeds, Sprouts, Grow, Harvest!

The Litchfield Fund

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