



# 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**

**Most investors certainly found the last few weeks confusing!** It is not easy to sort out the causes for the volatility over the last two weeks. China’s slowing growth, a market correction, a possible rate hike, bouncing oil prices, a weirdly interpreted jobs report, a pending nuclear Iran have all been part of the mix. We used the opportunity to explore a few of our stocks that were on the downside before the recent tumble, sitting back to watch the turmoil unfold. Unknowingly, we followed in the footsteps of no less than Albert Einstein, who once said “I used to go away for weeks in a state of confusion.”

**Truth amid confusion:** Supposedly Dr. Einstein got the idea for the Theory of Relativity while playing the piano & then disappearing to his room for 2 weeks to develop the concept on just two handwritten pages! These market conditions are confusing. Among China, the Greek/Euro situation, slumping oil, Iran, an Eastern European migration nightmare & North Korea saber-rattling the most important concern for the FED should be the recent jobs report. Despite missing the job growth numbers by 50,000 the jobless rate fell to 5.1%, a 0.2% drop. This can only happen if more & more people are just quitting the workforce. The truth is that a 1/4 percent interest rate increase will have little impact on anything except perhaps stabilizing investors’ expectations. The Fed should heed Sir Isaac Newton’s advice “Truth is ever to be found in simplicity, and not in the multiplicity and confusion of things.”

**Portfolio news:** In what was a very tough week for equities two **Litchfield Fund** holdings bucked the trend. Cal-Maine Foods (**CALM**) rose nearly 6% for the week & Natural Grocers by Vitamin Cottage (**NGVC**) rose almost 5%! Trying to remain **CALM** in the tempest, the stock was given a STRONG BUY & a projected \$2.91 EPS by analysts. BB&T gave **CALM** a BUY rating also! Jeffries initiated coverage of **NGVC** with a BUY rating. **NGVC** has a consensus BUY rating and a \$31 target price from analysts watching the stock. Deutsche Bank raised its rating on Sprouts Farmers Market (**SFM**) to a BUY. Deutsche Bank & other analysts believe SFM has a nice rebound coming from its 30% stock price fall. Most important is the growth in returning traffic, nearly 8%, which clearly leads the industry. Also, analysts feel SFM’s 2016 guidance is too conservative, and they have raised EPS targets by 8%. The produce deflation factors which led to **SFM**’s lower 2<sup>nd</sup> QTR earnings were highly unusual, produce prices rarely fall 10%, & prices are already recovering. On the downside, **SFM**’s lower stock price reflects not just the earnings impact, but some significant changes in operating cash flow & short term debt to equity ratio which the company needs to fix. Gross margin has shrunk to a bit below industry average to just about 31%. But analysts think **SFM** has overstated the impact of competition & has a chance to match historical growth rates. Of course, revenue makes up for quite a bit of sins!

General Mills (**GIS**) announced the sale of the Green Giant label (& sister brand La Sueur) to B&G Foods for \$765M. Analyst Jim Cramer thought this was a nice win for both companies, and is still high on **GIS** reshaping itself under a new consumer dynamic. Meanwhile, Post & Treehouse Foods seem to be the suitors for ConAgra's (**CAG**) sale of its private label business, which appears to be stringing out longer than we expected.

Hain Celestial (**HAIN**) was once again on Fortune Magazine's list of 100 fastest growing companies. William Blair gave **HAIN** an OUTPERFORM rating. **HAIN** holds a BUY rating from 14 of 17 analysts covering the stock. **HAIN**'s stock price is off 15% from recent highs, perhaps a good buying opportunity for a stock with a long history of stock price growth! Boulder Brands (**BDBD**) picked up another activist investor, Starboard Value, who has accumulated nearly 5% of the stock. We still see a buy-out of **BDBD** happening sooner than later, the key indicators a delayed CEO search & the various value-seeking investors participating. Based on **BDBD**'s performing brands revenues, a likely buy-out is in the \$16 to \$20 range (2.5X to 3.5X).

Lifeway Foods (**LWAY**) whose stock price has been impacted by its inability to file proper SEC reports, received another extension. Whitewave Foods (**WWAV**), another stock which may be a good buying opportunity, is about 15% off recent highs & has a consensus BUY from analysts covering the stock. Whole Foods Market (**WFM**) received an OUTPERFORM rating from Imperial Capital. United Natural Foods (**UNFI**) rose about 2% this week as preliminary 4<sup>th</sup> QTR & fiscal year numbers appear to be on track. **UNFI** reports on September 15. Zoe's Kitchen (**ZOES**) beat quarterly estimates a few weeks back but the stock has performed poorly. As mentioned in *All Ears!!*, slowing customer traffic, especially in new stores, is investors' concern.

**Defense of uh...Mayonnaise...Act irony?** This week the Federal Government came out in support of centuries-old values and traditions by refusing to allow the traditional definition of uh...mayonnaise...to be redefined. According to the FDA, uh...mayonnaise...must include *an egg*. A bit confusing, but we think we understood that correctly!

**Seeds, Sprouts, Grow, Harvest!**

**The Litchfield Fund**

V2issue12.09.05.15

**The Litchfield Fund** is a family owned & operated joint venture. We do not solicit or accept investment from outside individuals or entities. Opinions contained in *All Ears!!* are ours and should not be considered investment advice or recommendations.