Position Close Update: MDLZ, PRGO, ORCL & VZ

Our Long Idea and Danger Zone research reports are part of our ongoing effort to identify hidden gems in the market and also help clients avoid portfolio blowups. Position Update reports serve as notification that a previous investment idea's risk/reward profile has shifted and the position has been "closed out".

Mondelez (MDLZ: $44/share) – Closing Short Position – Up 10% since publish (S&P Up 18%)

Mondelez was selected as a Danger Zone pick on 3/29/16. At the time of the report, the stock received a Very Dangerous rating. Our investment thesis highlighted: 1) a negative divergence between GAAP and economic profits; 2) slowing organic growth; 3) high profit growth expectations embedded in the stock price; and 4) the unlikely sale of the company despite the presence of an activist investor.

During the subsequent 454 day holding period, MDLZ stock underperformed, rising 10% compared to 18% for the S&P 500. MDLZ has since been upgraded in our system and currently receives a Neutral rating according to our Stock Rating Methodology. As margins improve, economic earnings turn positive, and M&A speculation grows in the food industry, we think the downside risk here is diminished and are closing this position.

Perrigo (PRGO: $75/share) – Closing Short Position – Down 22% since publish (S&P up 16%)

Perrigo was selected as a Danger Zone pick on 5/2/16. At the time of the report, the stock received a Very Dangerous rating. Our investment thesis highlighted: 1) aggressive, shareholder value-destroying acquisitions; 2) the use of misleading non-GAAP metrics; and 3) the misalignment of executive compensation plans and shareholder interests.

During the subsequent 420 day holding period, PRGO stock underperformed, falling 22% compared to a 16% gain for the S&P 500. PRGO has since been upgraded in our system and currently receives a Neutral rating. While issues remain, such as a weakness in internal controls and an ongoing Department of Justice probe into price fixing, PRGO's valuation no longer presents quality risk/reward. We hope investors were able to avoid a portfolio blowup and participate in the 22% fall in the stock price.

Oracle (ORCL: $51/share) – Closing Long Position – Up 43% since publish (S&P up 26%)

Oracle was selected as a Long Idea on 2/18/16. At the time of the report, the stock received a Very Attractive rating. Our investment thesis was that ORCL was undervalued and had the levers to "unlock" $65 billion of market value by aligning the firm's strategy and performance compensation with return on invested capital (ROIC).

During the subsequent 495 day holding period, ORCL stock outperformed, rising 43% compared to a 26% gain for the S&P 500. ORCL has since been downgraded in our system and currently receives a Neutral rating. While business prospects remain strong, the 43% rise in the stock price changes the risk/reward profile on this stock. We hope investors were able to participate in the 43% rise in the stock since we highlighted ORCL.

Verizon (VZ: $45/share) – Closing Long Position – Up 0% since publish (S&P up 24%)

Verizon was selected as a Long Idea on 9/10/15. At the time of the report, the stock received an Attractive rating. Our investment thesis highlighted: 1) strong pricing power and superior network; 2) potential upside from the firm's digital content strategy; and 3) a valuation below 1.0 PEBV, implying a permanent profit decline.

During the subsequent 531 day holding period, VZ stock underperformed, remaining flat on a price basis (8% total return with dividends) compared to a 24% gain for the S&P 500. VZ has since been downgraded in our system and currently receives a Neutral rating. After numerous acquisitions, including AOL, Yahoo, and Fleetmatics, we believe it is prudent to step aside as VZ transitions its business to meet the demands of a changing mobile, media, and marketing landscape.

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Disclosure: David Trainer, Kyle Guske II, and Kenneth James receive no compensation to write about any specific stock, style, or theme.

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