

## Auto Stocks to Drive Your Portfolio



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MARTINSVILLE, N.J., Oct. 11, 2011 /PRNewswire/ -- Despite recent turmoil in the markets and fears of slowing economic growth around the world, the auto industry has held steady thanks to several tailwinds that should continue to pave the way for strong future growth. Against this backdrop, Condor Capital Management's Ken Schapiro highlights Ford Motor Company and TRW Automotive Holdings as investment opportunities to consider in the automotive space.

While the devastating natural disasters in Japan earlier this year initially caused substantial supply chain disruptions, many of these issues were quickly resolved. To illustrate, the auto industry continued its strong pace by posting a 1.7% gain in production during August, which was the highest reading in a year and compared to a meager 0.2% rise in overall industrial production.

As for catalysts ahead, analysts cite the availability of credit as an important factor in keeping auto manufacturers on a steady track. Unlike in the most recent recession, the availability of credit right now does not impede most customers from obtaining car loans. Therefore, customers looking to purchase vehicles will not be deterred as much as they may have been just a few years ago. Vehicles that are currently in use are more than ten years old on average and buyers are looking to replace their vehicle with newer models. In response, auto makers expect to fulfill this appetite with a variety of new models for 2012.

Future growth in the industry will also be supported by greater demand in developing economies, since nations such as India and China sport a large and growing pool of middle-class consumers. This, coupled with low-cost labor and greater demand for higher-end vehicles in general, opens up a much larger market for auto manufacturers to operate in.

A recent survey by accounting firm KPMG LLP indicates that executives in the auto industry plan to hire new employees and boost capital spending at a relatively higher pace because of greater clarity due to the aforementioned reasons.

Ford was the only of America's "Big Three" auto manufacturers not to file for bankruptcy or get bailed out by the government as a result of the recent economic downturn. The company recently stated that it expects domestic auto industry sales to come in at slightly below 13 million new cars and trucks, which would be up from 11.6 million units just a year ago. In its most recent financial report, the firm delivered higher revenues in every geographical region, though higher costs related to product development pressured profits. Nonetheless, Ford posted its ninth straight quarterly profit and managed to beat Wall Street's earnings expectations. Even more,

with a forward P/E ratio of only 5.59, Ford is trading at relatively cheap levels compared to other auto manufacturers. The company also announced several new investment plans overseas, including expanding production capacity in attractive emerging markets.

TRW Automotive Holdings, which specializes in safety-related technologies, also stands to benefit from future growth in the auto industry as both governments and drivers demand higher levels of safety when operating their automobiles. Middle-class consumers are willing to pay a premium for certain features, and this trend is expected to spill over to the lower-end models until safety features that were once considered a luxury become the norm. As vehicle production increases around the world, several governments have required that a minimum safety standard be met before the vehicle is either made or sold in their country. With the auto industry poised for strong future growth, the number of safety features and components are expected to increase as well.

In its latest quarterly earnings report, the firm posted EPS of \$1.99 excluding special items, trumping analysts' expectations of \$1.71. TRW Automotive Holdings is also attractively valued, as its forward P/E ratio of 4.71 is one of the lowest in the auto parts industry.

Although many investors are concerned due to the recent market fluctuations, the auto industry is set to ride higher. Pent-up demand for new cars, an expanding customer base, and increased production by manufacturers should propel the auto industry's growth over the next several years.

*At the time of this article, Condor Capital Management held long positions in Ford and TRW Automotive.*

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