TOP STOCKS FOR 2016

Stock #1: Microsoft (MSFT)

With near $100 billion in cash on hand, Microsoft is one of the few stocks that has a great slate from which it can grow, expand and reward shareholders. Microsoft has been growing its dividend yield consistently over the past 10 years with an average annual dividend growth rate of almost 16%.

From the chart above, you will observe that Microsoft has consistently paid increasing dividends from 2006 to date. The company rewarded its shareholders even during the recession and you will notice an increase in the Cash Payout Dividend Ratio during the recession. Interesting, Microsoft was one of the tech stocks to rise at the start the recovery as seen in the sharp increase in the share price towards the end of the recession. If you want a stock to own without being worried about the general direction of the market, Microsoft is the stock to "Buy".

We consider Microsoft a "Buy" because it is currently trading at a discount to its peers despite the fact that its share price is higher than the pre-recession price. You may also target entry positions on one of the many pullbacks that are common to tech stocks this year.

Stock #2: Verizon (VZ)

Verizon Communication has been evolving to become more than a wireless network company considering its determined efforts to breakout into the world of artificial intelligence, machine-learning activities and data analytics. Verizon is set to double its size and scale of operations if the rumors about a Comcast spectrum acquisition should turn out to be true.

The chart above shows why we consider Verizon Communication a stock to own forever. You will observe that Verizon's Revenue has been climbing and climbing over the past 10 years and that the company recorded consistent dividend growth even during the recession. Although Verizon's Price change percentage has already rallied, the stock is still on a steady increase and Verizon's new ventures and potential acquisition suggests that a price leap is on the horizon. Now is the best time to buy shares of Verizon Communications before it soars to new highs.

Stock #3: JPMorgan Chase & Co: (JPM)

There exist two sides to the investment coin; namely, growth and income. JPMorgan Chase & Co is one of the unusual stocks that combine the best of the mutually exclusive world of growth and income. You will be hard pressed to find a stock that combines an Average Dividend Growth Rate of 44% in almost 10 years while almost doubling in share price within the last 36 months.

If you explore the news feed of JPM's competitors, you will mostly read about their layoffs, restructuring and cost-cutting efforts in order to balance their top and bottom lines. Yet, JPM has strategically positioned itself to remain unfazed even with the threat of a potential change in legislature, all thanks to its diversification across five separate industries.

JPMorgan Chase & Co suffered a great deal during the recession as depicted in the chart above. However, the company's post-recession recovery has been breathtaking to say the least. JPMorgan has increased its share price and dividend above beyond pre-recession levels to provide an uncommon combination of growth and income. Critics might argue that JPMorgan failed to impress last year because of low earnings but the chart above shows that the company has redeemed itself on the earnings front with the acute rise in the first and second quarter earnings.

Stock #4: Gilead Sciences (GILD)

Gilead Sciences has been a dream stock for long-term investors. Anyone got in at the IPO in 1992 and held the stock until today is sitting on a gain of around 17,000%. 2014 was a banner year for Gilead, as it recently launched two new drugs, Sovaldi and Harvoni, which are aimed at curing Hepatitis C. The American Liver Foundation estimates that about 3.2 million people in the U.S. and 150 million worldwide have been infected. On top of that, the company has 37 compounds in various stages of clinical trial. With the company producing so much cash, the board has decided to reward shareholders with both dividends and a recently authorized $15 billion share repurchase program. The company's first dividend was set at $0.43 per share, which gives the stock a 1.5% dividend yield.

Gilead has massive revenues of almost $25 billion, a robust $17.8 billion in annual levered free cash flow, and a healthy product stream. The PE ratio near 9 is very attractive considering the industry average currently sits around 30. Over the past 10 years, the company has consistently grown its revenue without even seeing a dip seen during the 2008-09 recession. Gilead's stock price has continued climb year after year and barely declined at all during the Great Recession.

Stock #5: Starbucks (SBUX)

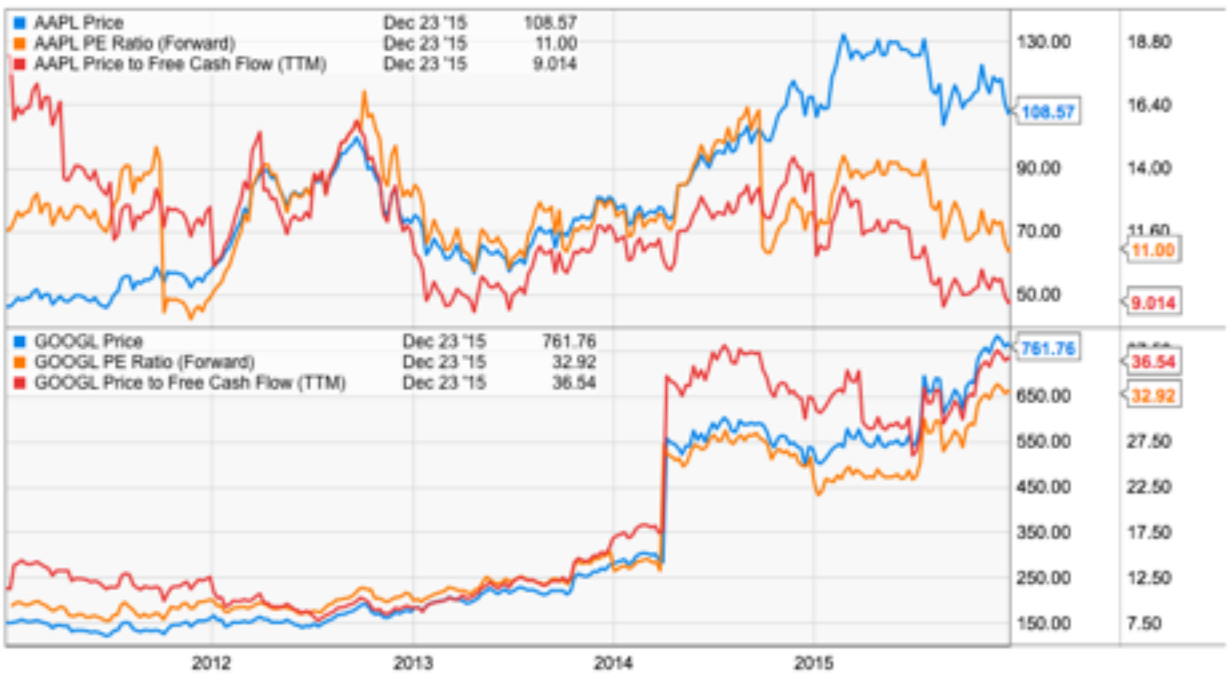
Starbucks is the only single stock that can provide you with price returns that is equal to the combined price returns of several of its peers. Starbucks is the stock to buy if you are looking for a way to grow your wealth by holding a single stock without all the hassle involved in spending tons of hours on research looking for entry and exit points on multiple stocks.

The technicals show a 264.3% price return over the last five years. Revenue looks unstoppable as it has been shooting upwards without any detour or delay, the share price is stubbornly northbound and the stock is ranging as it strives to reach its pre-split share price. Starbucks is simply unrelenting and you had better hop on board if you don’t want to be left behind.

Stock #6: Apple (AAPL)

If you are a sophisticated investor, there is not much left to tell you about Apple Inc. The company is an open book that is read by both investors and traders alike. Nonetheless, we are serious about our stand that Apple is currently undervalued despite its impressive success in rethinking the technological landscape, rewarding investors and making millionaires out of traders.

In comparing Apple to the Industry average, the stock is trading at a discount because we observed that Apple trades at a forward P/E of 11 compared to the industry average P/E of 18.



The chart above shows how Apple trades in comparison to its closest competitor, the almighty Alphabet (Google) Inc. Apple currently trades lower than Alphabet in share price, thanks to Apple's recent stock split, yet you will observe that Apple is cheaper based on its P/E ratio. To make the undervalued position of Apple more obvious, we have included a third metric, (Price to Free Cash Flow) and you can make a decision for yourself on whether we are right in holding shares of Apple or not.

Stock #7: Nike (NKE)

Nike stock looks expensive trading around 27 times trailing-12-month earnings, and nearly 21 times next year's estimates. However, that's also much "cheaper" than, say, Under Armour, which commands a smaller $15 billion market cap, but whose shares currently sit at a jaw-dropping 90 and 57 times trailing earnings and next year's estimates, respectively.

We can't ignore that Nike already enjoys a massive head-start in nearly every geographic market that matters. Nike generated more than half its revenue overseas last quarter, compared with roughly 8% for Under Armour, so there's little debating who's the undisputed footwear and apparel champion of the world. As Nike continues to methodically expand its global presence -- especially in emerging markets whose fast-growing middle classes enjoy more disposable income -- you can bet it won't give up its market share without a fight.

Nike is focused on growing where it counts. And remember, despite Nike's already-enormous size, its fiscal 2014 revenue still rose 10% to $27.8 billion, which translated to 11% growth in earnings per diluted share. Returns on Assets also stand at over 16%. On top of that, Nike told investors last quarter that its worldwide futures orders were up 11%.

As it stood at the end its most recent fiscal year back on May 31, Nike had still managed to generate an impressive $2.1 billion in free cash flow, returned $3.4 billion to shareholders through share repurchases, and paid a $0.24-per-share quarterly dividend all the while (1.85 diluted EPS). Nike is also investing heavily in its high-margin direct-to-consumer business, sales from which climbed 22% for the year to exceed $5 billion for the first time. To put that achievement into perspective, Under Armour's latest guidance calls for its overall fiscal 2014 revenue to climb at most 29% to $3 billion.

Stock #8: Mastercard (MA)

For a long-term investment, you need a company with strong competitive advantage operating in an industry with high barriers to entry, and a low risk of disruption. Very few companies have one or two of those characteristics. MasterCard has all of them.

MasterCard operates one of the largest payment processing networks on the planet, but it also has huge opportunity for growth. Today, MasterCard operates in 150 countries around the world and conducts over 30 billion transactions annually, but plastic -- both real swipes and the virtual kind via mobile -- barely scratches the surface of total transactions. Well over half of all transactions in the U.S. are still cash or check, while that amount skyrockets to more than 80% in the rest of the world. So, MasterCard is barely scratching the surface.

MasterCard stock only yields about 1% today, but the dividend has been increased 1,000% over the past five years. In other words, people who bought the stock at $35 in 2011 are getting a 6% yield on their original investment -- not to mention a tripling of the share price. Extrapolate even a fraction of that return over 20 years, and you're talking big money.

Revenues stand at a huge $9.593 billion, with a 52.01% operating margin, which is very nice. Investors certainly can't complain about the 50.68% Return on Equity either. Add it all up, and not only is Mastercard definitely a "Buy" in our book, but its also a "Buy" or "Moderate Buy" by 20 out of 25 of the Wall Street analysts that rate the stock.

Stock #9: Braskem (BAK)

Although the industry has taken a hit over the past few years, we believe chemicals are still within a megatrend that has the potential to reward its players in the next four decades. Chemical manufacturers could spend nearly $124 billion expanding existing or building new petrochemical facilities within the next decade or so, according to The American Chemistry Council. South American chemical leader Braskem has pioneered a process for converting ethanol into ethylene. Since the ethanol is ultimately created from renewable sources such as sugarcane the company is able to market the resulting product as renewable ethylene, which is chemically identical to petroleum-based ethylene in every way.

Just like most in the industry, Baskem's stock price has taken a hit over the past few years. However, the past 5 months have seen a turn for the better with a 120% gain from the stock's August low. Even with the stock's recent run-up, it still trades at a P/E Ratio of 6, compared to an overall industry P/E of 19. Baskem's Return on Equity hasn't been too shabby either at 49.35%, which dwarfs the overall industry's ROE of 18.4%.

Bonus Stock #1: EBay (EBAY)

An exploration of stocks to own forever will not be complete if we fail to pay serious attention to the Ecommerce sector. Ecommerce has revolutionized the way companies do business and we cannot start naming all the benefits of Ecommerce over traditional brick and mortal stores. eBay took another route to setting up an Ecommerce business and the company has been consistently rewarded for its innovation.

eBay has colossal $22 billion in revenues, healthy $4.4 billion in annual levered free cash flow, monster cash hoard of $6 billion and clean balance sheet. The growth rate estimates are around 13 percent to 15 percent for 2016, which makes the forward PE ratio of 17 somewhat attractive. In the last five years, the company has consistently grown its revenue with only a minor dip seen during the recession. eBay's free cash flow is another source of pride as it continued northbound even during the recession and with the sharp spike noticeable since last year.

Bonus Stock #2: Wells Fargo (WFC)

One of the reasons that banks have magnificent buildings and stately columns is for them to exude an aura of indomitability so that you can trust them with your money. Wells Fargo Bank is one of the major banks that have perfected the art of making profit on the difference between the rate at which they borrow money and the rate at which they lend money. The bank services a third of all households in the U.S. and it leads the pack in mortgage origination.

Wells Fargo is one of the best performing stocks in the S&P 500 with a share price gain of over 100% within the last 5 years; in contrast, Bank of America is only up about 30% within the same period. Wells Fargo's revenue seems to thrive during a recession and the bank is currently standing tall with revenue of $85.91B on net income of $23.06 to mark a profit margin of an impressive 26.8%.

The Return on Assets tells us how well a bank is making profits just in the same way the Return of Equity can show us how efficient a company is at turning profit. Regular companies that provide products or services will need to provide ROA in the double digits to make sense but a 1.4% ROA will be considered a decent achievement for a bank due to the peculiarities of the banking business. Wells Fargo has consistently shown its profitability in the last 10 years and the company current boasts an ROA of 1.35%.