site that tracks the Dogs, the strategy has returned an average 10.6% annually over the past 10 years, higher than 9.1% for the entire index.

The Dogs are getting a big lift this year from **Caterpillar** (CAT), up 27%, and **Merck** (MRK), up 17%. All but two Dog stocks have risen by double-digit percentages, and none are down.

The Dogs' collective dividend yield is 3.7%, notes Neil Hennessy, founder of Hennessy Advisors and a longtime exponent of the Dogs strategy. That's a nice contrast to the 10-year U.S. Treasury bond's 1.74%.

Interest rates are going up, so bond prices will continue to fall, he contends. His **Hennessy Total Return** fund (HDOGX) employs about 75% of its capital in the Dogs strategy and the rest in Treasuries.

Allergan's Upside: 20%-30%

Despite Allergan's robust drug pipeline and growing revenue and profits, its shares have fallen by a third from its all-time high of $340 in mid-2015 to Friday's $230.47.

The market's disenchantment with this maker of products such as wrinkle-treatment Botox has more to do with industry issues and sentiment than company woes. As such fears subside, the attractions of this $91 billion market-cap drug maker should become clearer, and the shares (AGN) could rise 20% to 30%, to as high as $300 over the next year or two.

Last April, investors bailed out after **Pfizer's** (PFE) proposed $150 billion purchase of Allergan disintegrated, following opposition to tax aversions by the Obama administration. Additionally, the Street fears a Democratic victory in the White House and perhaps in Congress would bring stricter drug-price regulations. More recently, investors were surprised by the high premiums Allergan agreed to pay for two small biotechs with early-stage drugs, **Tobira Therapeutics** (TBRA) and **Vitae Pharmaceuticals** (VTAE).

Once the broader issues fade, however, says Jason Ware, an Albion Financial Group portfolio manager, investors looking for value and growth will find it in Allergan, which has a diverse portfolio of defensive products, eight with more than $500 million in annual sales. Albion is a long-time Allergan holder.

Craig Giventer, a money manager at Financial Partners Capital Management, expects Allergan to grow revenue at a high single-digit percentage rate over the next few years and earnings per share at a double-digit rate. FPCM bought Allergan this year.

Botox and other medical aesthetics/dermatology drugs generate about one-third of revenue and roughly 35% to 40% of operating income. The moat around Botox is "very strong," with years of secular growth ahead, Giventer avers.

In the first six months of 2016, sales of both Botox and Restasis, for dry eye, nearly doubled to $1.4 billion and $704 million, respectively. Allergan faces no material patent expirations for about five years, Giventer points out. Allergan's treatment areas include the central nervous system, the gastro-intestinal tract, eye care, women's health, and anti-infectives, among others.

Botox and other aesthetics products are, to a large extent, insulated from political risk, as they are paid for in cash, not by health insurance. Though not medically necessary, Botox is a "must-have" treatment for people who must look sharp, Ware maintains.

Both money managers note that CEO Brenton Saunders has a track record of successfully buying and selling assets. The Vitae and Tobira deals, about $2.3 billion together, are relatively small for compounds that could be enormously successful. Tobira focuses on nonalcoholic steatohepatitis, a common liver disease associated with obesity and diabetes. An effective treatment, Ware says, would be "one of the last untapped billion-dollar opportunities."

Allergan's price/earnings ratio, about 13.7 times 2017's consensus adjusted EPS estimate of $16.82, is well below its P/E over the past four years, which has been in the 20s.

Analysts' figures aren't based on generally accepted accounting principles. The GAAP 2017 EPS estimate is $3.24. Much of the sizable difference between Allergan's GAAP and non-GAAP results is attributable to amortization of intangible assets, a noncash, nonoperating M&A-related expense most pharma companies exclude from adjusted earnings. Allergan has a healthy balance sheet, with more than $20 billion in cash, and $40 billion in debt. And it's growing faster than most other big pharma outfits.

In 2016's first six months, Allergan's revenue rose to $7.1 billion, 25% above the year-earlier level. Its GAAP net loss narrowed to $385 million, or 97 cents a share, from $848 million, or $2.48. Adjusted net income was $2.7 billion, or $6.35 a share, following added issuance of equity, versus $2.3 billion, or $6.41.

Giventer puts fair value at $280. Ware says the shares could obtain an 18 multiple on its 2017 earnings, boosting it past $300 a share. As sentiment on Allergan improves, it just might act like a shot of Botox for the wrinkles around this stock. ■

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Industry Action

Performance of DJ U.S. Ind, ranked by wkly % chg. *

Industry	% chg.
Basic Materials	2.05%
Financials	0.93
Consumer Services	0.85
Technology	0.70
Oil & Gas	0.53
Utilities	0.51
Health Care	0.23
Industrials	–0.16
Consumer Goods	–0.18
Telecommunications	–3.54

* For breakdown see page M49. Source: S&P Dow Jones Indices

Time to Take Profits on Time Warner

TAKEOVER BUZZ HAS SENT TIME WARNER SHARES UP 23%, TO $89.48, SINCE *BARRON'S* RECommended them last spring ("Time Warner Could Return 25% in the Next Year," April 2). They aren't overpriced at that level, but they don't seem to have much upside left. A takeover announcement by AT&T could be imminent, reports The Wall Street Journal, so the shares could get another quick pop. But they could also slide if the deal falls through or is priced below what investors expect—or if they trade at a significant discount to the deal price, due to regulatory doubts. We'd sell above $90.

A phone company is a more natural fit for a television company than investors might assume. Viewers are increasingly dividing their screen time between their 60-inch den sets and their 5½-inch iPhones. By the end of the decade, phone carriers could distribute more content than cable broadband services, according to a recent