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How To Invest In 2017: The Best Stock Picks From 7 Pros

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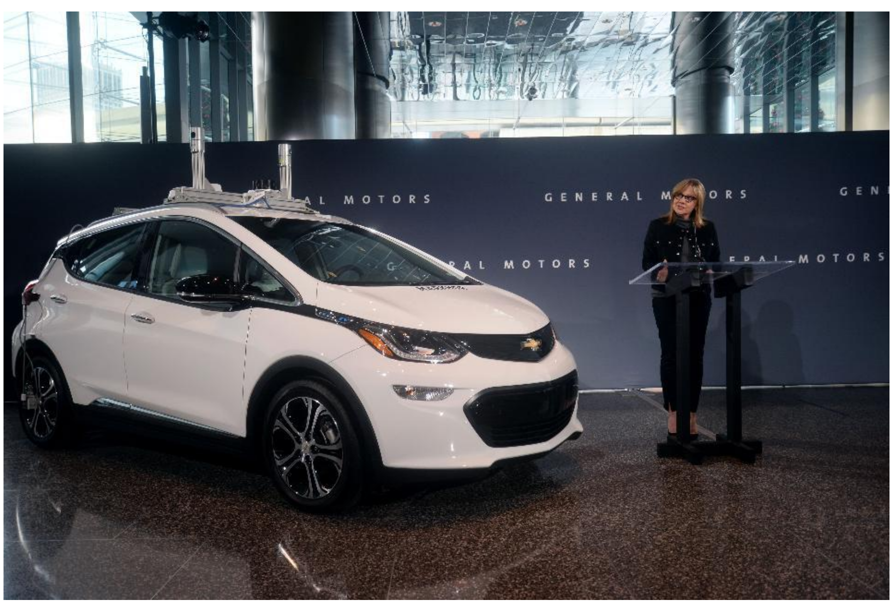
Which stocks will be the best bets on Wall Street for 2017? Here's a panel of seven investment strategists sharing their top stock market picks for 2017.

1. **General Motors (GM)**

By Michael Palumbo

There is concern that the current business cycle for automakers has peaked. This may be true. But I do not foresee a significant downturn from here because the cycle has not been robust. Any downturn will, therefore, be insignificant. I do not see earnings to be significantly adversely affected.
A second concern is changing technology in the industry and in particular the future moving toward electric and autonomous vehicles. There is a likely scenario that General Motors benefits from both of these trends.



Mary Barra, Chairman and CEO of General Motors, on December 15, 2016 in Detroit. General Motors announced it will soon begin autonomous vehicle testing on Michigan's *public roads and start manufacturing the next generation of autonomous vehicles at the Orion assembly plant in Michigan in 2017. (Rachel Woolf/Getty Images)*

A $500 million investment in Lyft will allow the firm to be well positioned as ride-sharing and autonomous vehicles become more widespread. Earlier in 2016, GM purchased Cruise Automation, which specializes in software for autonomous vehicles.

Also, the firm has developed multiple electric and hybrid vehicles at price points much lower than Tesla (TSLA). It is the market perception that Tesla will be the industry leader in this area. But this could end up being incorrect. GM has the bankroll and the technology to beat Tesla and is positioning itself to do this on price initially and then eventually even on quality.

General Motors' latest effort, the Bolt, is a long-range autonomous electric vehicle that will be available initially for Lyft customers as shared autonomous vehicles.

General Motors currently trades at a price-to-earnings ratio (P/E) of 4.3. Firms that trade at P/Es this low usually face incredible headwinds. But in this case, I am confident this perception is changing as the company proves much more resilient and ready for the future than the market believes.

As this perception changes, I can see GM stock rise substantially due to P/E expansion. In comparison: Ford's (F) current P/E is 6.6, Toyota's is 9.7. General Motors' P/E has averaged 12.2 over the past five years. A P/E of 10 for GM would be very reasonable with stable to slightly decreasing earnings.
If this happens, the company will double in value from a current price of under $38 to $80 over the next one to two years. I believe this change in perception has already begun. GM stock has rallied from $33 in mid-November. But we are still in the early stages.

Michael Palumbo is the founder of Third Millennium Trading in Chicago, Ill. and author of Calculated Risk.

2. **ONE Gas** (OGS)

By Winsor "Skip" Aylesworth

One of the bright spots in the energy sector the last few years has been natural gas. Using new techniques such as hydraulic fracturing and horizontal drilling, we have uncovered abundant supplies of natural gas resulting in lower prices and growth of consumption. Those companies that have concentrated on distributing this environmentally preferred energy source have flourished. One such company is ONE Gas, Inc. (OGS) headquartered in Tulsa, Oklahoma.

ONE Gas distributes natural gas to homeowners, commercial and industrial users in its service territory of Kansas, Oklahoma, and Texas. From an investor point of view, this focused business has generally been immune to the wide swings in commodity prices for both oil and gas.

I believe there are three good reasons to own ONE Gas going forward:

1. ONE Gas service territory is in an area of population growth. In Texas, ONE Gas serves the high-growth areas of Austin and El Paso. It is the primary gas distributor in both Oklahoma and Kansas. Sites served in these two states include Oklahoma City, Tulsa, Kansas City, Topeka, and Wichita. All these areas have growing populations and opportunities for new gas connections to match the growth. This growth should support price appreciation in the future.

2. Current rate commissions are favoring local distribution companies (LDC’s) like ONE Gas, in allowing above average rates of returns for capital improvements. For ONE Gas, this means they are encouraged to spend capital in making their system safer by replacing old pipe with a new state-of-the-art pipe. The more they spend, the more they can earn, which accretes to EPS (earnings per share) and supports dividend growth. This should also support price appreciation going forward.

3. Finally, because of the two items above, ONE Gas could be considered a potential acquisition candidate for another entity that wants to enter the business or grow its business. Current multiples are in the high range for ONE Gas. But due to items one and two above, ONE Gas should continue to grow to make its stock a buy or provide the opportunity for price appreciation if ONE Gas is acquired.

If an investor would like to participate in the growth of the natural gas boom, ONE Gas should be on your radar and after acquiring an initial position. Additions could be made on price weakness.

Winsor "Skip" Aylesworth is VP portfolio manager at Hennessy Advisors with $6.7 billion under management in Novato, Calif.

3. **USG Corporation (USG)**

By Gregg Sgambati

USG Corporation (USG) is an interesting investment for 2017 that will give you exposure to the green building boom. Only 14 companies in the building products sub-industry have disclosures for “Green Building Policy.” Those companies have taken steps toward using environmental technologies and/or principles in the design and construction of its buildings.

USG stood out on this list because of solid fundamentals and sustained year-on-year sales growth. According to the S-Network Thomson Reuters ESG Best Practices Ratings, the company ranks in the top quartile of companies in the construction materials industry. And it is the top U.S. company in its industry. While its low free float stock is a concern, the company is an innovator in green building. It is a founding member of the US Green Building Council (USGBC).

According to BCC Research, the U.S. market for green building materials is expected to grow at a compound annual growth rate (CAGR) of 9.5% to nearly $69 billion by 2019.

Green building materials provide important benefits to the environment, the building owner, and the occupants. These products are environmentally responsible because using them can help reduce negative externalities associated with extraction, transportation, fabrication, and recycling associated with non-green products. Additionally, the building owner and its occupants can benefit from lower energy costs, reduced maintenance, and improved occupant health and productivity.

The World Green Building Trends 2016 SmartMarket Report, presented by Dodge Data & Analytics and United Technologies Corporation, shows that green building continues to double every three years. And according to a report from Research and Markets, the global green building market is anticipated to grow at a CAGR of around 13% during 2015-2020.

Gregg Sgambati is head of ESG Solutions at New York City-based [S-Network Global Indexes](). It publishes over 200 indexes, which serve as the underlying portfolios for financial products with more than $6 billion in assets under management.

Traders work on the floor of the New York Stock Exchange (NYSE) as news about the Federal Reserve interest rate increase is announced in New York, U.S., on Wednesday, Dec. 14, 2016. (Michael Nagle/Bloomberg)

4. **Independence Realty Trust (IRT)**

By Brett Ewing

The run-up in interest rates has caused a short-term rout across real estate investment trusts, REITs. Apartment REITs have been especially hit. Most are more than 20% below their 52-week highs.

The catalyst for Independence Realty Trust (IRT) in 2017 lies in its necessity for an equity raise. For years now, IRT has been held down by the fact that it pays fees to an external advisor based on a number of assets under management inside of the REIT. Investors always rightly worry about conflicts of interest with a REIT that is externally managed and whose incentives lie in buying as much as possible, not making as much as possible for shareholders.

This fact has made it a tougher sell to many institutions. Thus it has languished towards the very bottom of the category regarding earnings multiples. IRT raised the equity to buy out the external manager and create an internal team that is aligned with shareholder interests.

Funds from operations, or FFO, is the preferred earnings metric for REITs instead of earnings per share (EPS), which is used to evaluate non-real estate stocks. Out of all the companies in the apartment REIT industry, there isn't a single one that trades at less than a 15x price/FFO ratio that is internally managed. The average across the industry is 20x price/FFO for 2016. Independence trades for around 10x price/FFO.

IRT's dividend also sets itself apart from the rest. At its current yield of over 8%, it is more than double the next closest internally managed apartment REIT. Even if it dropped its dividend down to a more respectable payout ratio that was in-line with the others in its space, it would still be more than 25% higher than its closest comps. Its ability to raise rents in the Class B apartment space seems positive for years to come because of the solid employment environment and rising income for middle-class workers.

The biggest risks for IRT come from interest rates rising and specifically LIBOR (London Interbank Offered Rate), which is directly tied to much of IRT's debt. As it rises, the spread between the net income the properties produce and the debt service required drops. This is typical of most in the REIT space. But we believe LIBOR will start to flatten out toward the end of the first quarter of 2017 after inflationary outlooks soften.

The internalization of IRT has created a tradeable catalyst as the company expands in the lucrative Class B apartment space for years to come. When the stigma of misalignment of interests wears off, and investors realize the discount valuations that IRT offers in the growth phase of their life cycle, the stock should perform very favorably with a high margin of safety.

Brett Ewing is the chief market strategist at First Franklin Financial Services with $110 million under management in Tallahassee, Fla.

5. **Forterra (FRTA)**

By Eric Marshall

This recent IPO is a water infrastructure products producer that should see nice secular demand over the next few years. Forterra (FRTA), with roughly $1 billion in annual revenues, has built a platform to add additional infrastructure products. Currently, there are few players consolidating this industry. Forterra could announce one or two accretive acquisitions in the first half of 2017, causing current street earnings estimates to be revised up.

At Hodges Funds, we are especially attracted to businesses that have high barriers to entry. We believe Forterra meets this criterion due to the regional nature of shipping large-diameter concrete pipe within a 100- to 150-mile radius from where it is manufactured. As a result, Forterra has limited competition within local markets as well as rational pricing power for its products.

Demand for water and drainage products will be supported by the replacement of aging public works infrastructure across the entire country. Management sees organic demand growing at 6%-7% for drainage in 2017, plus additional growth from the Fast Act Money requiring matching state funds of $0.20 for each federal $1.00.

One negative is that Forterra has $1.1 billion of debt, which represents 4X its enterprise value to EBITDA (earnings before interest, taxes, depreciation and amortization). We believe it will reduce debt through cash flow over the next couple of years, which should support a higher P/E (price to earnings) multiple for the stock.

Forterra trades at an attractive valuation at just above 8X EV (enterprise value)/EBITDA compared to most cement and aggregate players that are over 10X. Assuming that Forterra is successful in completing a couple of acquisitions in the year ahead, the stock could trade at $30 based on the valuations of similar infrastructure stocks.

Eric Marshall is a portfolio manager at Hodges Funds with $2.5 billion in Dallas, Texas.

6. **Dycom Industries (DY)**
By Stephen DeNichilo, CFA

Dycom Industries (DY) is one of the nation's largest specialty contractors whose business is driven by the capital expenditure plans of the cable and telecommunications industries. In a market trading near all-time highs, investors are best served by stocks – like Dycom – that exhibit superior organic growth attributes at reasonable valuations with stock prices below past peaks.

Dycom is the direct beneficiary of what we see as a very long-term trend. The U.S. is in the early innings of a massive fiber-optic build-out in response to ever-increasing demand for lightning-fast internet speeds and the exponential growth of data consumption. Ask yourself a question: Would you change internet providers if a competitor offered consistently faster service at a lower price?

Cable and telecom companies believe the answer is "yes" and have embarked on a veritable arms race of fiber-optic deployments. For Dycom, that has translated to a consistent organic growth of approximately 25% and a backlog of work that is up 30% year-over-year. These dramatic fiber expenditures have allowed Dycom to achieve earnings per share growth from $1.16/share in the fiscal year 2014 to near $5.00/share in 2016 – a trajectory we expect will continue. Trading at less than 15x its fiscal year 2017 EPS, Dycom represents a rare combination of growth and value in this market.

Dycom's largest customer, AT&T(T), illustrates the highly competitive nature of the industry. Currently serving under 3 million homes, AT&T is committed to aggressively building out its high-speed fiber network to more than 12.5 million homes by 2019. Meanwhile, Comcast(CMCSA), Charter, Verizon(VZ) and Altrice have all publicly voiced a commitment to faster speeds and increased expenditures.

The stock has come under pressure recently given worries that Google (GOOGL), struggling to build its own fiber network, will slow Dycom's growth. At only 2% of revenues, Google is merely a footnote. But the Google noise may be creating an attractive entry point into this multi-year growth story.

Stephen DeNichilo, CFA, is portfolio manager of [Federated Investors, Inc.] with $364.3 billion under management in Boston.

7. **IBM (IBM)**

By Benjamin Lau, CFA

Cloud, A.I. and mobility will drive 'Big Blue' back to glory in 2017.

IBM (IBM) is a turnaround story. "Big Blue" is transforming its business to meet the needs of the new era of cloud, mobility, security, and artificial intelligence. IBM's transformation had begun to show some improvements in 2015. It gained momentum in 2016. I think it will continue to bear fruit over the next few years and lead to higher revenues and profitability.

IBM's Chief Watson Security Architect Jeb Linton demonstrating to University of Maryland, student Lisa Mathews how to teach IBM's Watson the language of security, Tuesday, May 10, 2016, Baltimore, MD. (Mitro Hood/Feature Photo Service for IBM)

Over the past three years, corporate IT spending has dramatically shifted toward the cloud and away from many of IBM's traditional "legacy" products, such as hardware and services that have been IBM's bread and butter for decades. With the shift, IBM has seen its sales plunge since 2012.

This is not the first time IBM has had to reinvent itself. When the legendary Lou Gerstner took over the helm of IBM, the company was also in deep trouble. Famously decrying it as "a bag of bones," Gerstner was able to transform the company known for its big mainframe and personal computers into a competitive services-oriented company – not just providing clients with the hardware but helping clients come up with solutions.

IBM's current situation is not as dire but still requires them to evolve in an ever-changing technology landscape. CEO Ginni Rometty has declared that cloud, analytics, mobile, social and security technologies will be IBM's top priorities.

The company has spent a tremendous amount of money to invest in these areas – more than $5 billion in acquisitions in 2016, alone. These initiatives saw accelerating growth of 16% in Q3 2016 and now accounts for more than 40% of overall firm revenues. One of IBM's most popular products now is its artificial intelligence platform, Watson, the same system that beat two human contestants on Jeopardy!

This growth helped stem the overall decline in IBM's legacy business. After steady declines in revenues for the past few years, I was impressed that overall revenues were flat for Q3 2016. While not fantastic yet, this compares to the large revenue declines just last year. The improvement is coming from the cloud business, which saw annual growth of 42%, and analytics, which saw an annual growth of more than 15%.

I believe the turnaround in IBM's business is taking hold and as its strategic initiatives become a larger share of the overall company, it gives "Big Blue" a lot of momentum going into 2017.

* Apriem currently owns IBM for client portfolios. Personally, I do not own IBM nor anyone in my immediate family.

Benjamin Lau, CFA, is co-chief investment officer and principal at Apriem Advisors with $500 million under management in Irvine, Calif.

Ky Trang Ho founded Key Financial Media, which ghostwrites articles for financial services providers and business leaders. Follow me on Facebook, G+, LinkedIn and Twitter.