

## **The Trump Effect: Gun Stocks Could Boom**

Under President Trump, gun sales have been down.

That's because consumers no longer believe anti-gun restrictions are likely, reducing their ability to buy guns. "The big thing with the gun industry is that if you're not worried the Second Amendment is going to be taken down, then you're not going to buy a gun, so their sales are going to suffer," noted S3 Partners, as quoted by Mother Jones.

As a result, stocks like RGR fell from a high of \$64 to \$46 in days.

While RGR would regain its \$68 highs on the heels of earnings, investors lost interest in the stock, sending it back to a low of \$47 a share.

But something interesting just happened.

Investors are headed back into these stocks because of what Donald Trump could achieve over the next few weeks. According to Reuters, the Trump Administration is preparing to make it easier for American gun makers to sell small arms, including assault rifles and ammunition to foreign buyers. While that has drawn criticism from both sides of the aisle, should it pass, it could cut all government red tape and regulatory costs, boosting U.S. exports, and potentially creating more jobs in the U.S.

"You could really turn the spigot on if you do it the right way," noted a senior administration official, as quoted by Reuters.

Interesting to note, any changes made by the Administration does not need any congressional approval for enactment. Any changes would be publicly announced by the fall, which would be followed by a period of public comment.

After that, we could see implementation of the new ruling by the first half of 2018.

Despite the criticism this is sure to see, we have to look at this as investors. At the moment, the U.S. is seeing increased demand for non-military firearm exports from Canada, Australia, Thailand and Saudi Arabia. If we allow gun sales to foreign buyers, sales could increase as much as 15%, according to the National Shooting Sports Foundation.

According to CNN Money:

Moving most gun exports under the Commerce Department would eliminate certain registration requirements and fees for gun makers. Analysts and a gun industry group say it would open a foreign market that is mostly untapped. "This initiative will improve our nation's ability to compete in the global marketplace for commercial and sporting firearms and ammunition without impairing national security," the National Shooting Sports Foundation, a gun industry group, said in a statement.

Is it likely to generate criticism? Sure...

But again, we need to look at this as investors. How can we expose ourselves to the potential upside that could be generated by these actions?

There are two ways, each with multiple opportunities.

One is Sturm Ruger & Company (RGR).



RGR designs, manufactures and sells fire arms, including single-shot, auto-loading, bolt action, and rifles, shotguns, .22 caliber rim fire auto-loading guns and other revolvers in a range of calibers. Despite recent downside, RGR remains a strong company with not a lot of debt, trading at just 12.64 times forward earnings.

Unfortunately, we're seeing some wide bid-ask spreads of this stock. Instead, we've been hearing that many traders are simply opting to buy just the stock at market prices.

Another interesting opportunity is American Outdoor Brands (AOBC).



AOBC manufactures and sells firearms and accessory products for the shooting, hunting and outdoor enthusiast. The company's product comprises pistols, revolvers, rifles, guns, handcuffs and firearm-related products and accessories. At the moment, it's cheap at seven times earnings and a little more than nine times next year's earnings estimates at 92% of PEG.

There are three ways to trade the opportunity.

We can buy the stock at current market prices.

And, or we can trade call options on it, too. Traders have been buying the AOBC December 15, 2017 15 calls and the AOBC January 19, 2018 15 calls.