



## *Investing in Guns Stocks: Boom Times for Sturm Ruger (RGR) and Smith & Wesson (SWHC)*

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**By Don Miller**

The gun business is booming.

Uncertainty about the upcoming election and a sluggish economy has Americans buying guns and ammo by the truck load.

In fact, business is so good they can't make enough of the stuff.

Even though actual sales data is hard to come by, the industry's biggest players are saying business has never been so good.

Gun stocks are up big as a result.

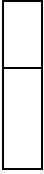
"Many indicators, including a record-setting 2011, show the firearms industry continues to thrive in a down economy and that the potential exists for another strong sales year in 2012," the National Shooting Sports Foundation (NSSF) said at its annual trade show.

The NSSF said that 920,840 instant criminal background checks were made in January, an unprecedented 20th-straight month of year-over-year increases. The January number comes on the heels of nearly 1.5 million checks in December -- the most ever for any month.

The actual number of guns sold is often much higher, as private transfers and sales from gun shows are exempt from background checks.

In fact, one major manufacturer reported that business is too good.





## Record Orders at Sturm, Ruger & Co.

Sturm, Ruger & Co. (NYSE: [RGR](#)) said it received orders for more than one million units in the first quarter, forcing the company to stop accepting new orders.

"Despite the company's continuing successful efforts to increase production rates, the incoming order rate exceeds our capacity...consequently, the company has [temporarily suspended the acceptance of new orders](#)," CEO Michael O. Fifer said in a statement.

Here's what's fueling the feeding frenzy in firearms...

In good times and bad, sales of firearms have proven steady and relatively immune to the economic cycles that trouble other industries.

But nothing fuels gun sales like uncertainty, and nothing fuels uncertainty like an election--- especially one that puts a Democrat in the White House.

Whether that's rational or not, firearm sales increased dramatically in the wake of the financial crisis in 2008 and as Barack Obama took office in 2009.

"People were rushing out to buy guns, because they were worried [President Obama] was going to take their guns away," William J. Vizzard, professor of criminal justice at California State University told the *Huffington Post*. "He didn't have a single proposal on the table for gun laws. It defies reason. It's a culture unto itself."

Now, Americans are once again scrambling to buy guns on fears that the president will be reelected. They reason that as a second-term president, he will be free to impose new restrictions on firearms without having to worry about getting re-elected.

In fact, according to National Rifle Association (NRA) President Wayne LaPierre, the administration's policies are "part of a massive Obama conspiracy to deceive voters and hide his true intentions to destroy the Second Amendment during his second term."

For decades, the NRA has been beating the drum of individual gun ownership as a sacred part of American freedom, wielding its power in Washington to beat back proposed restrictions on the right to bear arms.

The general state of the economy is also helping to boost gun stocks.

Americans are constantly bombarded with media reports of doomsday scenarios, dollar

devaluation and economic chaos.

Many take this end-of-the-world scenario very seriously, and are arming themselves to the teeth to protect themselves.

"Indicators reveal growing interest among citizens, particularly women, in owning a firearm for personal and home protection," the NSSF noted in its statement.

### **Investing in Gun Stocks (RGR, SWHC)**

With customer demand exploding, the firearms market represents a tantalizing opportunity for investors.

Unlike many industries where a handful of major players dominate, the industry is composed of about 300 companies with combined annual revenue of about \$6 billion.

"If you put the whole industry together, you still wouldn't have one Fortune 500 company," said David Kopel, an analyst at the [Cato Institute](#). But two of the most recognized names -- Sturm, Ruger and **Smith & Wesson Holding Corp.** (NASDAQ: [SWHC](#)) - might be worth a look.

Both are pure plays on the business of manufacturing firearms and ammunition. Both are considered small caps, with a total valuation under \$1 billion.

And both have seen their stock prices soar recently. Over the past 12 months, SWHC's stock price is up a whopping 132% while RGR has posted a 123% increase.

That has catapulted Smith & Wesson to a sky-high P/E of 126, and 5 times book value.

Meanwhile, Ruger is trading at a more reasonable, but still expensive P/E of 24.

In other words, you might want to wait for the market to correct a bit before plunging in.

But companies like Smith & Wesson and Ruger are still in the bullseye of gun demand.

Election-year politics and an uncertain economy could make it a memorable year for gun owners and gun stock investors alike.

### **News & Related Story Links:**

- **Money Morning:**  
[Sturm, Ruger & Co. Inc. \(NYSE: RGR\) Hitting the Bull's-Eye](#)
- **Investors Business Daily:**  
[Sturm Ruger Sees Record Gun Orders On Election Fears](#)
- **FoxBusiness:**  
[Outgunned! Sturm Ruger Says it Can't Keep Up with Orders](#)

- **Huffington Post:**  
[One Constant: American Gun Industry Thrives](#)