MARKET COMMENTARY MONDAY, DECEMER 4, 2017

EXECUTIVE SUMMARY

TPS 614 – December Newsletter and Target Prices Posted
Keeping Stocks Safe – Buckingham on *CNBC*
Staying the Course – Volatility is Normal; Economy is Strong; Corporate Profits are Healthy; Sentiment is Not Ebullient
Historical Perspective – Markets Have Thrived Despite Plenty of Scary Events
Wharton's Finest – Jeremy Siegel on *CNBC*
Hand-Holding – Wall Street Types Might Need it More than Those on Main Street
Another Terrific Week – ABC News Oops
Tax Legislation Passes the Senate – 32 High-Tax-Paying *TPS* Faves
Company News – Updates on TNP & KR

Market Review

Though your Editor was on December newsletter deadline on Friday (*TPS 614* and our updated Target Price listings have been posted to theprudentspeculator.com), it was too hard to pass up an opportunity to appear on *CNBC Television* that afternoon to provide perspective on: "Keeping stocks safe in light of the market slide."

https://www.cnbc.com/video/2017/12/01/how-to-invest-at-market-highs.html

The invitation was made shortly after the Dow Jones Industrial Average had plunged 350 points in the wake of the "bombshell" *ABC News* report that former National Security Director Michael Flynn, per a CNBC story, "was prepared to testify that he made overtures to the Russian ambassador at President Trump's behest while the heated presidential contest was underway."

My notes to the producers included the observation that market gyrations are hardly unusual, even as index volatility has been very subdued of late…

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THE PRUDENT SPECULATOR
Outsized S&P 500 Single Day Price Moves

Volatility has been subdued of late, but since 1927 there have been nearly 1,400 times each when the S&P 500 has lost/gained 1.4889%+ in a day, which was the worst point the morning of December 1.

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		48	22	9	3	10	18	18	34	21	183
Years Ending in 1		74	12	3	1	3	12	6	38	34	183
Years Ending in 2		77	11	2	14	0	16	1	49	9	179
Years Ending in 3		55	9	6	1	15	13	2	14	4	119
Years Ending in 4		35	3	2	0	42	6	8	4	10	110
Years Ending in 5		21	11	9	1	9	0	1	2	14	68
Years Ending in 6		17	22	5	9	4	14	9	4	10	94
Years Ending in 7		46	10	11	2	3	30	17	19	2	140
Years Ending in 8	13	43	15	2	1	5	13	20	55		167
Years Ending in 9	34	32	9	1	3	5	7	22	36		149
Totals	47	448	124	50	35	96	129	104	255	104	1392

From 12.31.27 though 12.1.17. Days of S&P 500 price return drops of more than 1.4889%. SOURCE: Al Frank using data from Bloomberg

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	Totals
Years Ending in 0		33	12	8	3	14	20	14	28	21	153
Years Ending in 1		51	18	6	0	5	8	14	25	28	155
Years Ending in 2		76	12	3	8	0	29	2	37	14	181
Years Ending in 3		71	10	1	2	16	11	2	22	3	138
Years Ending in 4		43	1	2	0	29	14	3	6	5	103
Years Ending in 5		26	9	9	1	20	10	1	4	12	92
Years Ending in 6		28	24	7	7	6	12	6	6	12	108
Years Ending in 7		32	9	6	2	1	33	22	15	0	120
Years Ending in 8	14	58	9	1	3	8	18	23	43		177
Years Ending in 9	37	29	4	2	4	5	9	30	40		160
Totals	51	447	108	45	30	104	164	117	226	95	1387

From 12.31.27 though 12.1.17. Days of S&P 500 price return gains of more than 1.4889%. SOURCE: Al Frank using data from Bloomberg

…while economic data has been strong (New York Fed President William Dudley said on Friday, “Not only do I think the economy’s in good shape today, I think the economic expansion if going to continue for some time”),…

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THE PRUDENT SPECULATOR
Favorable Economic Statistics

The Conference Board’s latest measure of Consumer Confidence for November came in at 129.5, up from 125.9 in October, which was the highest tally in 17 years. The ISM Manufacturing Index for November edged lower to 58.2, but the average of the year-to-date readings (57.4) on the health of the factory sector would correspond to a 4.5% increase in real gross domestic product (GDP).

…corporate profits (even without any tax relief) are very healthy,…

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THE PRUDENT SPECULATOR
Solid EPS Growth Estimated

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2018	$38.15	$144.33
9/30/2018	$36.96	$140.45
6/30/2018	$35.58	$134.99
3/31/2018	$33.64	$129.92
12/31/2017	$34.27	$125.10
9/30/2017	$31.50	$118.73
ACTUAL		
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26
9/30/2016	$28.69	$101.42
6/30/2016	$25.70	$98.17
3/31/2016	$23.97	$98.61
12/31/2015	$23.06	$100.45
9/30/2015	$25.44	$104.14
6/30/2015	$26.14	$108.30
3/31/2015	$25.81	$111.50
12/31/2014	$26.75	$113.01
9/30/2014	$29.60	$114.51
6/30/2014	$29.34	$111.83
3/31/2014	$27.32	$108.85
12/31/2013	$28.25	$107.30

Source: Standard & Poor's. As of 11.30.17

History shows that stock prices generally have followed earnings, so it is nice to see actual and projected EPS moving up, even as earnings forecasts often turn out to be too optimistic. Happily, the number of companies exceeding expectations in 2017 has been better than the average earnings-beat rate over the last 5 years.

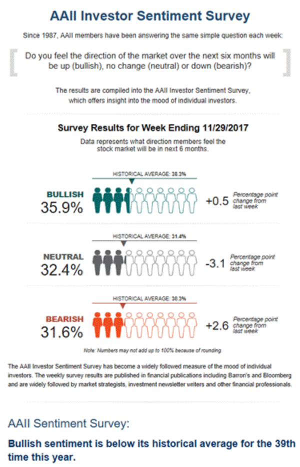
S&P 500 Quarterly Earnings Comparisons

	BEAT	MISSED	MET		BEAT	MISSED	MET
Q3 2017	72.4%	19.3%	8.2%	Q4 2014	68.6%	21.0%	10.4%
Q2 2017	70.2%	20.1%	9.7%	Q3 2014	73.7%	17.2%	9.0%
Q1 2017	74.0%	18.9%	7.2%	Q2 2014	65.7%	21.2%	13.0%
Q4 2016	67.3%	22.0%	10.8%	Q1 2014	67.1%	22.6%	10.2%
Q3 2016	70.5%	21.1%	8.4%	Q4 2013	63.9%	25.3%	10.8%
Q2 2016	70.2%	20.9%	8.9%	Q3 2013	66.1%	23.2%	10.6%
Q1 2016	72.3%	20.6%	7.0%	Q2 2013	65.4%	26.8%	7.8%
Q4 2015	68.8%	21.6%	9.7%	Q1 2013	65.9%	25.9%	8.2%
Q3 2015	67.9%	23.0%	9.0%	Q4 2012	64.8%	24.8%	10.4%
Q2 2015	69.8%	22.0%	8.3%	Q3 2012	63.3%	23.7%	13.0%
Q1 2015	67.7%	22.9%	9.4%	AVERAGE	68.4%	22.1%	9.5%

Source: Standard & Poor's and Bloomberg

…and investor sentiment is hardly ebullient.

THE PRUDENT SPECULATOR
Still No Excessive Enthusiasm



With the major market averages hitting record after record, the AAII Sentiment Survey still shows less Bulls than normal, and investors have not exactly piled into U.S. stocks, with net redemptions from ETF/mutual funds at more than $200 billion since Jan 2015.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	11/21/2017	11/15/2017	11/8/2017	11/1/2017	10/25/2017
Total Equity	5,035	-54	2,851	-1,624	9,999
Domestic	1,175	-4,214	-3,660	-5,454	5,159
World	3,860	4,160	6,511	3,830	4,840
Hybrid	-500	-359	-373	-999	-506
Total Bond	6,900	1,468	5,401	7,460	10,854
Taxable	6,162	839	4,499	7,234	9,942
Municipal	737	630	903	226	913
Commodity	-39	136	-153	-242	98
Total	11,395	1,191	7,727	4,595	20,445

Source: Investment Company Institute

We trust that our readers stayed calm, perhaps comforted by our repeated reminders that the equity markets have survived, and ultimately thrived, following far worse news (note the 3,747% price increase, which does not include dividends or the impact of dividends reinvested, in the S&P 500 since the Nixon Resignation)…

THE PRUDENT SPECULATOR
Lots of Frightening Events

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	30235%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	17215%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	15120%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	5950%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	6437%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	4642%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	3557%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3494%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	2651%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	3747%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2323%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2473%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2135%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1489%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	991%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	964%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	705%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	570%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	537%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	492%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	475%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	415%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	189%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	163%
Clinton Impeachment Proceedings	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	114%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	89%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	159%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	184%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	134%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	116%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	249%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**3484%**

As of 12.1.17. Source: Al Frank using Bloomberg and Ned Davis Research Events & Reaction Dates

History is filled with plenty of disconcerting events, including a Presidential Resignation and an Impeachment, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

…not to mention plenty of arguably traumatic events (note the 23% price gain of the S&P 500 since the Trump Victory) during the sensational move up since the March 2009 lows,…

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THE PRUDENT SPECULATOR
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	134%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	103%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	120%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	84%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%		85%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%		60%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%		44%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		32%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%			30%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%			28%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%			26%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%			31%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%			27%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%			40%
Brexit	6/23/2016	2,113.32	2%	7%	15%			25%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			23%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**39%**	**75%**	**56%**
Source: Al Frank using Bloomberg. As of 12.1.17								

…or, if they were *CNBC* watchers, comments from our favorite Wharton Professor Jeremy Siegel that the stock market would actually prefer a President Michael Pence…

https://www.cnbc.com/video/2017/12/01/professor-jeremy-siegel-stock-market-prefers-president-michael-pence.html

In reality, it would seem that it was probably folks on Wall Street, including a *CNBC* anchor or two, who could have used the hand-holding. After all, *The Wall Street Journal* in its market summary story on Saturday offered this quote to explain the selling from a director of ETF trading at a brokerage house, “People are just trying to protect themselves right now,” while a chief investment officer at an asset manager confessed to selling stocks Friday morning after seeing the reports about Mr. Flynn, proclaiming, “Everyone was wondering what will stop the rally. Well this is it.” Alas, days like Friday are why so few are able to keep up with, much less beat, the major market averages.

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THE PRUDENT SPECULATOR
Few Actually Earn the Market Return

“For the 12 months ended December 30, 2016, the S&P 500 index produced an impressive annual return of 11.96%, while the average equity mutual fund investor earned only 7.26%, a gap of 4.70 percentage points. This underperformance is most attributable to January (1.74%) and the ‘Trump rally’ in November (1.13%) and December (1.34%).” – DALBAR 4.4.17

2017 Quantitative Analysis of Investor Behavior (QAIB)

	Investor Returns		Index Returns		Differences	
	Equity Funds	Fixed Income Funds	S&P 500	Barclays Aggregate	Stocks	Bonds
30 Year	3.98%	0.57%	10.16%	6.34%	-6.18%	-5.77%
20 Year	4.79%	0.48%	7.68%	5.29%	-2.89%	-4.81%
10 Year	3.64%	0.40%	6.95%	4.34%	-3.31%	-3.94%
5 Year	9.83%	0.05%	14.66%	2.23%	-4.83%	-2.18%
3 Year	3.42%	-0.23%	8.87%	3.03%	-5.45%	-3.26%
1 Year	7.26%	1.23%	11.96%	2.65%	-4.70%	-1.42%

Annualized Rates of Return. Source: DALBAR. As of December 2016

“‘Investors had to push against media negativism from January to the end of the year. They were largely sellers in the second half of the year, either from fear or an attempt to find the top of the market. That top did not come in 2016 and investors paid for it.’ said Cory Clark, Director at DALBAR, Inc.” – DALBAR 4.4.17

Obviously, the progress on tax reform legislation (which was subsequently passed in the Senate early Saturday morning) helped to quell the sell-off…

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THE PRUDENT SPECULATOR
The Secret to Success in Stocks

While we understand that fear is a powerful emotion, it is interesting to note that even at the worst point of Friday's Michael Flynn selloff, the S&P 500 was still at a higher level than where it began the week, with those able to keep calm going on to enjoy handsome five-day gains.

…while perhaps some folks got early wind that *ABC News* would have to "clarify" and then "correct" and then suspend the reporter in regard to its Flynn story as the supposed Trump Campaign wrong-doing came after, and not before, the November election.

Happily, when all was said and done, stocks posted another terrific week, with the S&P 500 showing a total return of 1.60% and the Russell 3000 index gaining 1.50%. Even better, the Russell 3000 Value index advanced 2.63%, versus a 0.42% increase for the Russell 3000 Growth index, with the former no doubt boosted by the higher-tax payers that populate that benchmark.

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TPS Favorites for Corporate Tax Reform

TAX CUT STOCKS

Symbol	Common Stock	Min 3 Year Tax %	11.15.17 Price	12.1.17 Price	16-Day % Chg	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
WFC	Wells Fargo	30.4	$53.75	$56.20	4.6%	$63.88	Banks	13.7	nmf	1.8	nmf	nmf	nmf	2.8%	276,743
ARII	American Railcar	36.4	$36.44	$40.36	10.8%	$51.73	Capital Goods	14.7	1.5	1.4	7.7	-5.5	95%	4.0%	770
TPC	Tutor Perini	35.7	$23.10	$25.10	8.7%	$35.75	Capital Goods	13.0	0.3	1.3	8.2	0.5	90%	0.0%	1,250
TRN	Trinity Industries	33.3	$32.84	$35.44	7.9%	$40.37	Capital Goods	23.6	1.4	1.7	9.3	1.7	102%	1.5%	5,379
DE	Deere & Co	30.2	$132.27	$149.94	13.4%	$158.61	Capital Goods	25.3	1.6	5.8	8.0	-0.9	312%	1.6%	48,175
MAN	ManpowerGroup	36.6	$124.62	$127.01	1.9%	$137.25	Commercial/Pro Services	18.9	0.4	8.2	10.4	5.0	46%	1.5%	8,417
MDC	MDC Holdings	32.0	$33.18	$35.63	7.4%	$50.28	Consumer Durables	11.9	0.7	1.3	12.2	10.5	62%	2.8%	1,851
SYF	Synchrony Fin'l	36.9	$32.53	$35.94	10.5%	$44.84	Diversified Financials	13.7	nmf	2.2	nmf	nmf	nmf	1.7%	28,126
COF	Capital One Fin'l	31.3	$87.63	$92.72	5.8%	$113.87	Diversified Financials	12.2	nmf	1.5	nmf	nmf	nmf	1.7%	44,945
CVS	CVS Health	38.4	$69.80	$75.12	7.6%	$127.33	Food & Staples Retailing	13.2	0.4	nmf	8.4	10.6	nmf	2.7%	76,096
KR	Kroger	32.8	$21.61	$25.67	18.8%	$36.70	Food & Staples Retailing	13.2	0.2	11.1	7.0	4.4	636%	1.9%	22,834
WMT	Wal-Mart Stores	30.3	$89.83	$97.35	8.4%	$104.38	Food & Staples Retailing	22.2	0.6	5.0	10.1	6.3	63%	2.1%	288,388
TSN	Tyson Foods	31.6	$76.21	$82.39	8.1%	$86.81	Food	15.5	0.9	nmf	11.6	5.1	nmf	1.5%	32,915
AET	Aetna	41.6	$171.00	$181.31	6.0%	$188.87	Health Care Equip/Srvcs	17.8	1.0	16.3	14.1	1.6	225%	1.1%	59,125
CAH	Cardinal Health	32.7	$56.83	$58.90	3.6%	$88.76	Health Care Equip/Srvcs	11.2	0.1	nmf	10.4	10.2	nmf	3.1%	18,530
KMB	Kimberly-Clark	30.6	$113.43	$120.51	6.2%	$143.28	Household & Personal Pr	19.7	2.3	nmf	12.3	5.0	nmf	3.2%	42,390
ALL	Allstate	31.8	$100.38	$103.10	2.7%	$106.85	Insurance	15.2	nmf	2.1	nmf	nmf	nmf	1.4%	37,116
DIS	Walt Disney	34.2	$103.69	$105.25	1.5%	$136.98	Media	18.5	2.9	54.9	11.2	5.3	661%	1.6%	158,960
CMCSA	Comcast	31.1	$37.18	$38.43	3.4%	$46.34	Media	19.0	2.1	nmf	8.7	6.7	nmf	1.6%	179,613
DSW	DSW Inc	38.1	$19.63	$20.69	5.4%	$29.13	Retailing	15.3	0.6	1.8	6.0	11.2	0%	3.9%	1,655
LOW	Lowe's Cos	36.9	$78.37	$84.23	7.5%	$114.69	Retailing	18.7	1.0	15.9	10.3	6.4	353%	1.9%	70,148
KSS	Kohl's	35.7	$42.27	$48.05	13.7%	$59.02	Retailing	12.7	0.4	1.6	4.3	12.0	88%	4.6%	8,073
WSM	Williams-Sonoma	35.3	$50.78	$51.61	1.6%	$64.68	Retailing	14.7	0.8	3.7	6.8	6.8	0%	3.0%	4,360
FL	Foot Locker	33.9	$31.20	$43.31	38.8%	$70.65	Retailing	10.3	0.7	2.2	4.6	7.2	5%	2.9%	5,370
AEO	American Eagle	33.7	$13.87	$15.66	12.9%	$17.70	Retailing	13.6	0.8	2.6	5.8	4.5	0%	3.2%	2,773
TGT	Target	32.5	$54.16	$59.51	9.9%	$77.12	Retailing	12.4	0.5	3.0	6.1	14.1	104%	4.2%	32,348
JBL	Jabil	31.8	$28.58	$28.58	0.0%	$41.11	Technology Hardware	13.5	0.3	3.5	5.1	10.6	112%	1.1%	5,048
T	AT&T	32.7	$33.81	$36.50	8.0%	$44.84	Telecom Services	12.5	1.4	nmf	6.9	7.3	nmf	5.4%	224,074
ALK	Alaska Air Group	36.3	$64.44	$66.91	3.8%	$105.29	Transportation	9.1	1.1	5.8	5.4	6.4	166%	1.8%	8,233
NSC	Norfolk Southern	35.4	$126.42	$137.50	8.8%	$145.77	Transportation	22.1	3.8	3.1	11.1	3.2	73%	1.8%	39,345
DAL	Delta Air Lines	34.1	$49.33	$52.06	5.5%	$71.60	Transportation	10.8	0.9	nmf	5.4	2.2	nmf	2.3%	37,117
FDX	FedEx	33.6	$214.45	$230.84	7.6%	$280.20	Transportation	19.4	1.0	6.7	9.3	-0.6	164%	0.9%	61,899
	Averages:	34.0			8.1%			15.6	1.1	6.6	8.5	5.6	160%	2.3%	57,252

As of 12.1.17. nmf=Not meaningful. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

It remains to be seen how the House and Senate will reconcile their tax bills, but it seems highly likely that Corporate America will soon be seeing a 20% tax rate…which should bolster the bottom lines of these (30%+ payers) TPS stocks.

No doubt, there will be some additional Target Price upgrades as we gain a better handle on the impact of the tax legislation, but we know that there are plenty of smart folks in the finance and accounting offices across Corporate America, so we doubt that our low-tax payers will see much hardship, especially as some will benefit from repatriation of profits/cash held overseas, meaning that we don't anticipate a lot of changes to our portfolios in the weeks and months ahead.

We certainly do not mean to sound cavalier about the swirling news out of Washington, and we realize that big downturns can happen quickly (as was the case on Friday morning), but we see no reason to alter our optimistic outlook for the long-term prospects of our undervalued stocks. Sooner or later, we will see a significant turn downward, as declines are a normal part of the investment process, but those who have been able to stay unemotional and disciplined, have nearly always been rewarded for their patience in keeping the faith during the inevitable scary periods.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Ups & Downs but Value & Dividends Win

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.3%	26.0%
Growth Stocks	9.3%	21.5%
Dividend Paying Stocks	10.5%	18.1%
Non-Dividend Paying Stocks	8.7%	29.7%
Long-Term Corporate Bonds	6.0%	7.5%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.4%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 08.31.17. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	106.3%	905	26	3.5	3/9/2009	11/30/2017
17.5%	66.9%	577	37	2.4	10/3/2011	11/30/2017
15.0%	66.6%	560	43	2.1	10/3/2011	11/30/2017
12.5%	43.9%	330	70	1.3	2/11/2016	11/30/2017
10.0%	35.1%	248	103	0.9	2/11/2016	11/30/2017
7.5%	23.4%	146	152	0.6	2/11/2016	11/30/2017
5.0%	14.7%	72	294	0.3	6/27/2016	11/30/2017

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.5	1/6/2009	3/9/2009
-17.5%	-30.6%	225	36	2.5	4/29/2011	10/3/2011
-15.0%	-28.5%	195	42	2.1	4/29/2011	10/3/2011
-12.5%	-22.7%	140	69	1.3	5/21/2015	2/11/2016
-10.0%	-19.3%	103	102	0.9	11/3/2015	2/11/2016
-7.5%	-15.4%	66	151	0.6	11/3/2015	2/11/2016
-5.0%	-10.9%	37	293	0.4	6/23/2016	6/27/2016

From 02.20.28 through 11.30.17. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Al Frank using data from Bloomberg, Morningstar and Ibbotson Associates

Stock Updates

Jason Clark and Chris Quigley update five of our stocks that were in the news last week…

Shares of **Deere & Co.** (DE – $145.50) rose more than 7% last week after the agriculture, construction, forestry and commercial/consumer equipment maker reported fiscal Q4 results that exceeded consensus analyst estimates. Revenue for the period of $7.1 billion was above expectations of $6.9 billion and Deere reported adjusted EPS of $1.57, which was some 7% above forecasts of $1.47.

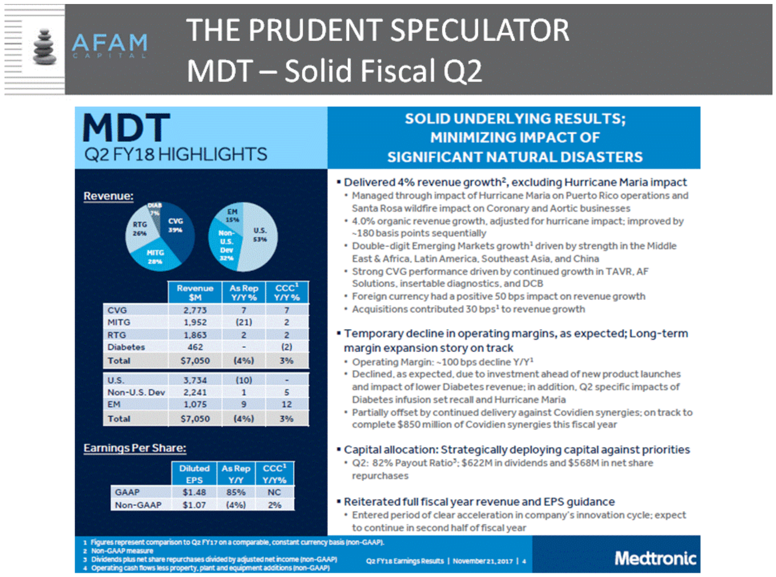
"Our performance was helped by improving markets for farm and construction equipment and also by our ongoing success establishing a broad-based product portfolio and a flexible cost structure," said Deere spokesperson Josh Jepsen. "Deere has remained well positioned not only to serve its present customers but also to make investments needed to drive growth and attract even more customers in the future."

Mr. Jepsen offered some details on the operating environment for Deere: “Despite increasing global demand, global grain and oil seed stock to use ratios are forecast to remain at elevated but generally unchanged levels in 2017/2018 as an abundant crop are mostly offset by strong demand around the world. Chinese grain and oil seed stocks remain high heading into 2018 after more than 10 years of supply, which includes domestic production plus imports outpacing demand. Chinese grain still represents almost half of the world's stocks, and considering these stocks are unlikely to be exported, the world market remains sensitive to production setbacks or disruptions. World cotton stocks to use ratio has now fallen for a second consecutive season and to the lowest level in five seasons, reflecting stronger global demand.”

Worldwide, Deere is forecasting 9% growth in Ag & Turf Equipment, including a two percent benefit from currency translation. In the U.S., Deere expects "significant growth" to be driven by smaller Ag & Turf products, due in part to new product launches in 2018. For the entire company, DE expects net sales to be up 22% in fiscal 2018, with an adjusted operating profit of $3.51 billion (an improvement of $900 million compared to 2017).

We are pleased to see the pick-up in sales for Deere, and we remain optimistic about the long-term potential of global agriculture in general, as the decline of global arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. With this in mind, we have again bumped up our Target Price to $156, though we respect that the shares have run a long way (up 41%) this year. Still, we continue to like all of the cash that has been returned to shareholders through the years and that during the cyclically lean times Deere did a solid job of restructuring and putting effective cost control measures in place. DE shares currently sport a dividend yield of 1.6%.

Health care equipment developer and manufacturer **Medtronic** (MDT – $83.25) reported adjusted earnings per share of $1.07 in fiscal Q2 2018 (vs. $1.02 est.). Sales were $7.05 billion, which was in line with consensus analyst estimates. Despite the unexpected impact of hurricane damages to its manufacturing facilities, MDT turned in a solid quarter that impressed investors, who pushed shares up 5% last week. Adjusted constant-currency quarterly revenue grew 4%, fueled by structural heart and neurovascular and partially offset by softness in pain therapies and spine.



"Our second quarter financial results are very encouraging, when considered in the context of a quarter in which we faced three hurricanes and the California wildfires. Hurricane Maria, in particular, significantly affected our manufacturing operations in Puerto Rico," said MDT CEO Omar Ishrak. "Against this backdrop, we delivered a sequential acceleration in our organic revenue growth, as expected."

For all of fiscal year 2018, the company continues to expect comparable constant currency revenue growth in the range of 4% to 5%, with diluted adjusted EPS growth in the range of 9% to 10% (versus last fiscal year's $4.37 per share). "We are seeing increased revenue momentum from several important new product launches, which we expect to continue into the second half of the fiscal year," said Mr. Ishrak. "The combination of our growth, momentum, business and geographic diversification, as well as our scale in markets around the world contribute to our goal of delivering increasingly consistent and dependable results for our shareholders."

We continue to be fans of Medtronic's diverse portfolio, and while certain product lines wane, the company seems to be able to keep rolling out new products that help offset slowdowns and enable growth. Its current pipeline includes treatments for atrial fibrillation, aortic stenosis and various neurological disorders. Relative to its peer group, we see MDT as attractively valued, and note that shares carry a current dividend yield of 2.2%. Our Target Price has been raised to $99.

Following better-than-expected Q2 performance, specialty branded footwear retailer **DSW Inc.** (DSW - $20.59) turned in a subpar fiscal 2018 Q3 that was materially impacted by the hurricanes that hit Texas and Florida. In response, investors bailed on the stock, sending the shares down more than 7% on the week. The company posted revenue of $708.3 million, versus estimates of $709.1 million, while adjusted EPS for the period was $0.45, trailing consensus analyst estimates by 15%.

DSW CEO Roger Rawlins commented, "Much of our core business performed in-line with expectations this quarter, despite an unusually severe hurricane season which impacted comps and earnings. Additionally, cold weather related product struggled to gain the traction we had anticipated; however, tight inventory management protected our bottom line from excessive markdowns and we ended the quarter with inventories below last year. Our business model remains healthy, generating strong cash flow which allows us to invest in both organic and non-organic growth. We activated new customers, accelerated digital demand and continued to deliver concrete progress in many of our strategic priorities, such as our Power Stores, our new Lab Store and the expansion of DSW kids. Additionally, we are starting to test several new services with our new Rewards VIP program that will further differentiate the DSW brand."

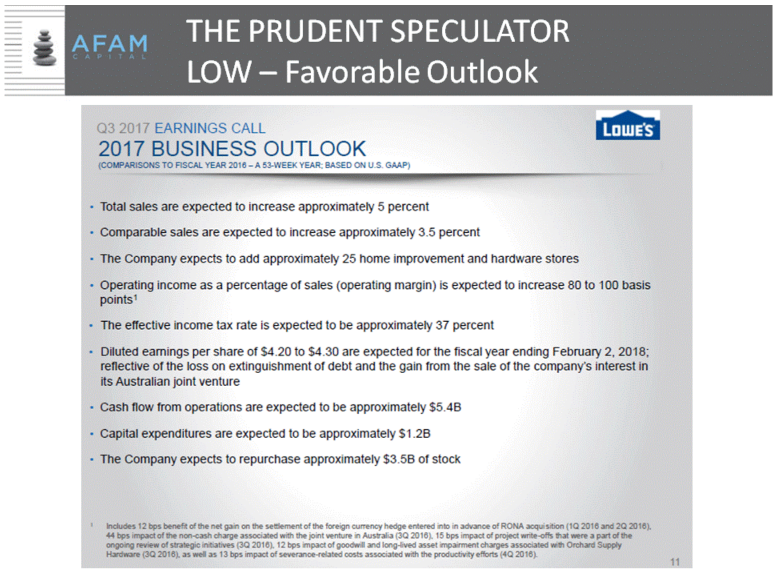
Given the impact of Q3, management moved its full year outlook for adjusted earnings down to a range of $1.40 to $1.45, from a range of $1.45 to $1.55 per diluted share. While the lowered guidance is obviously disappointing and we understand that brick-and-mortar retail continues to face some stiff operating headwinds from numerous directions, including titans Amazon and Wal-Mart, we continue to think DSW is undervalued. The shares trade for just 13 times NTM earnings estimates, while yielding 3.9%, and we think the company has been making progress and taking necessary steps to strengthen its omni-channel business strategy. We still believe the DSW has an opportunity to take market share in the fragmented footwear market and we like that management has been buying back stock, acquiring 0.5 million shares for $9.4 million last quarter, with $524 million remaining on its current repurchase program. Since 2013, DSW has returned over $600 million in dividends and share repurchases. Our Target Price remains $28.

Lowe's (LOW - $79.24) is the second-largest home improvement retailer in the United States, distributing building materials, construction supplies and home products to professionals and DIY-ers via 1,820 stores in the U.S., 300 stores in Canada and 10 stores in Mexico. The company earned $1.05 per share (vs. $1.02 est.) on revenue of $16.8 billion (vs. $16.57 billion est.) in fiscal Q3 2018, with a gross margin of 34.1%.

CEO Robert Niblock said, "We delivered comparable sales growth of 5.7%, driven by a 4.8% increase in comp average ticket and transaction growth of 0.9%. Hurricane-related sales contributed 140 basis points to comp growth. Our U.S. home improvement comp was 5.1%, with positive comps in all regions and all product categories. Lumber and building materials led product category growth with double-digit comps, driven by Pro demand, hurricane prep and cleanup and inflation. Appliances also posted double-digit comps, supported by our best-in-class omni-channel offering, and we achieved above-average comps in rough plumbing and electrical."

Mr. Niblock continued, "Internationally, we delivered strong performance, including high single-digit comps in Canada and double-digit comp growth in Mexico in local currency. We made further progress with the integration of RONA, continuing our roll-out of appliances, converting our second RONA big-box store to a Lowe's branded store and continue to drive growth with our e-commerce platform. We're excited with the momentum in the business and believe we are well-positioned for continued success in Canada."

Mr. Niblock offered thoughts on the economic landscape, "The home improvement industry remains poised to see solid growth, with job and income gains supporting consumer spending. We believe that revolving credit usage will continue to supplement spending power generated by stronger incomes. Housing is also expected to remain a bright spot. Household formation improvement this year is encouraging, and home price appreciation should continue as housing demand outpaces supply, encouraging homeowners to engage in discretionary projects, in addition to ongoing maintenance and repair spending."



Management expects revenue growth around 5% with full-year earnings per share between $4.20 and $4.30, matching the previously issued guidance. We think that a favorable macroeconomic backdrop should continue to bolster the home improvement industry, Lowe's included, for the foreseeable future. Though the debate over tax reform is not over in Washington, we think that Lowe's would stand to benefit from a reduction in corporate tax rates, considering that the trailing-12-month tax rate for the company is 37.1%. LOW trades at 16 times forward EPS estimates with a yield of 2.1%. Our Target Price is unchanged at $113.

Since our *Market Commentary* on November 13, more details have emerged related to the now-confirmed merger between **Marvell Technology Group** (MRVL – $23.80) and Cavium, a designer of semiconductor processors that enable intelligent networking, communications and security applications. Shares of MRVL have rocketed almost 30% higher since *The Wall Street Journal* broke the news on November 3, pushing past our original published Target Price of $20 and our revised Target Price of $22.

Marvell announced via press release on November 20, "Marvell will acquire all outstanding shares of Cavium common stock in exchange for consideration of $40.00 per share in cash and 2.1757 Marvell common shares for each Cavium share. Upon completion of the transaction, Marvell will become a leader in infrastructure solutions with approximately $3.4 billion in annual revenue."

The press release continued, "The transaction combines Marvell's portfolio of leading HDD and SSD storage controllers, networking solutions and high-performance wireless connectivity products with Cavium's portfolio of leading multi-core processing, networking communications, storage connectivity and security solutions. The combined product portfolios provide the scale and breadth to deliver comprehensive end-to-end solutions for customers across the cloud data center, enterprise and service provider markets, and expands Marvell's serviceable addressable market to more than $16 billion. This transaction also creates an R&D innovation engine to accelerate product development, positioning the company to meet today's massive and growing demand for data storage, heterogeneous computing and high-speed connectivity.”

“This is an exciting combination of two very complementary companies that together equal more than the sum of their parts,” said Marvell CEO Matt Murphy. “This combination expands and diversifies our revenue base and end markets, and enables us to deliver a broader set of differentiated solutions to our customers. Syed Ali has built an outstanding company, and I'm excited that he is joining the Board. I'm equally excited that Cavium's Co-founder Raghib Hussain and Vice President of IC Engineering Anil Jain will also join my senior leadership team. Together, we all will be able to deliver immediate and long-term value to our customers, employees and shareholders.”

While the transaction requires MRVL to take on $1.75 billion of debt, we think that the balance sheet hit is justified, given the diversification Cavium offers. With Marvell estimating to see $150 million to $175 million of synergies per year within 18 months of the transaction closing, and ‘significant’ accretion for revenue, growth, margins and adjusted EPS, we have raised our Target Price yet again, this time to $25.