MARKET COMMENTARY MONDAY, May 14, 2018

EXECUTIVE SUMMARY

Buckingham in Sin City – MoneyShow Las Vegas Starts Today
The Cost of Market Timing – New Study from George Mason University
Week in Review – Stocks Rally Despite 10-Year Again Hitting 3%
Rising Rates – Not Good for Bonds; Stocks, on Average, Do Just Fine
Earnings & Dividends – Both Likely to Rise Over Time
Sentiment – Still Not Much Excitement For Equities
Pharma Bargains – Trump Drug Plan: Bark Appears Worse than the Bite
Stock News – Updates on SIEGY, DPSGY, WMT, NTR, MOS, SYMC, COHU, TPC & DIS

Market Review

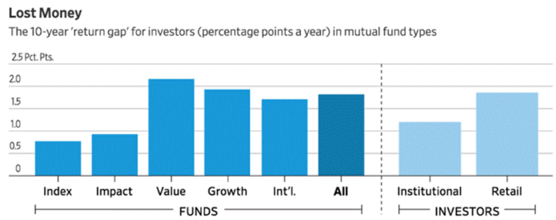
Your Editor is off to Sin City today for several speaking gigs at the *MoneyShow Las Vegas*, including a three-hour *Value Investing 101a and 101b*workshop. The *MoneyShow* charges for that marathon event, and my deck presently weighs in at more than 140 slides, but those who are able to attend the show can catch my condensed 45-minute *Value of Dividends* presentation at no additional charge. I always enjoy meeting readers at these shows, so please don't hesitate to say hello and to drop by *The Prudent Speculator's* booth at the exhibit hall.

Of course, those who have seen me speak previously should not be surprised to hear the same mantra we have been repeating since the inaugural edition of *The Prudent Speculator* was published in March 1977. The language has evolved over the years, but no matter what is happening in the equity markets, we believe that buying and patiently harvesting a broadly diversified portfolio of undervalued stocks (most of which also pay a dividend) to be held for their long-term appreciation potential is the key to investment success.

We also think that time in the market is far more important than market timing, as evidenced by a recent study showing how poorly mutual fund investors perform relative to the returns of the funds themselves. The research was discussed last week in *The Wall Street Journal* and was from Professor Derek Horstmeyer of George Mason University, who also was kind enough to provide us with the additional info on the even-longer-run folly of market timing mentioned in the chart below,…

THE PRUDENT SPECULATOR
The Cost of Market Timing

"The interesting thing is that the return gap (on an annualized basis) does get bigger for these funds the further you go back. So if we were to include 15 years of data, the spread actually jumps above 2% for a lot of these funds (though the data is sparser out in this region)."



	5 year Investor Return	5 Year Fund Return	5 Year Spread	10 Year Investor Return	10 Year Fund Return	10 Year Spread
ALL FUNDS	7.274873759	8.213142109	0.938268351	4.290724841	6.108959479	1.818234638
Index Funds	10.32556904	11.08150364	0.7559346	6.67730315	7.443079006	0.765775856
MF impact (full)	8.775981469	9.311984939	0.536003469	4.758631013	6.282796203	0.931958481
MF impact (constrained)	8.2897775	9.16509569	0.87531819	4.4898608	5.6622706	1.1724098
Value	7.946304196	8.674745074	0.728440878	4.447797206	6.603619664	2.155822458
Growth	9.13627185	9.953282453	0.817010603	5.142515699	7.07218704	1.929671342
Dividend	8.44016528	9.530104037	1.089938758	4.471139559	6.069022279	1.597882721

U.S. Based Stock Funds 2008-2018 per Derek Horstmeyer Assistant Professor of Finance George Mason University.

…with last week another illustration that the only problem with market timing is getting the timing right as the major averages enjoyed a terrific five days of trading. True, there were some disappointments (and one disaster) on the earnings front, but the S&P 500 and the Dow Jones Industrial Average each jumped around 2.5%, despite little in the way of new news that market watchers honestly could point to as the catalyst. In reality, given that the yield on the 10-Year Treasury temporarily moved above the supposedly scary 3% level on Wednesday, most would have bet that stocks would have headed south, yet the rise in interest rates did not knock the wind out of the sails of the equity markets.

THE PRUDENT SPECULATOR
Rising Rates are Bad for Stocks?

Stocks have rebounded off of the 2018 lows, even as the 10-Year U.S. Treasury yield has pushed upward toward 3%. Of course, the S&P 500 has soared from 2130 on July 8, 2016, despite a more-than-doubling in the 10-Year yield over the same period.

Now, that shouldn't have come as a big shock, given what has transpired since the yield on the 10-Year hit a low of 1.36% on July 8, 2016,…

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THE PRUDENT SPECULATOR
Rising Rates are Bad for…Bonds

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since 10-Yr Yield Low (7.8.16) %	Bloomberg Symbol	Index
Stock Indexes					
1.26	28.11	16.50	43.03	INDU Index	Dow Jones Industrial Average
7.64	29.73	8.97	52.60	CCMP Index	NASDAQ Composite Index
2.76	21.68	12.04	32.95	RIY Index	Russell 1000 Index
5.07	14.63	21.28	39.79	RTY Index	Russell 2000 Index
2.94	21.12	12.72	33.45	RAY Index	Russell 3000 Index
2.72	21.82	11.95	32.86	SPX Index	S&P 500 Index
6.06	30.21	7.07	42.75	RLG Index	Russell 1000 Growth Index
-0.61	13.64	17.33	23.49	RLV Index	Russell 1000 Value Index
7.22	22.14	11.28	44.11	RUO Index	Russell 2000 Growth Index
2.76	7.82	31.72	35.32	RUJ Index	Russell 2000 Value Index
6.15	29.58	7.38	42.85	RAG Index	Russell 3000 Growth Index
-0.36	13.17	18.38	24.35	RAV Index	Russell 3000 Value Index
6.74	27.43	6.89	40.24	SGX Index	S&P 500 Growth Index
-1.51	15.35	17.39	24.29	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.30	3.57	0.79	-2.47	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.36	3.53	0.75	-2.59	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-1.16	8.17	0.82	10.93	PONAX Equity	Pimco Income Fund-A
0.76	2.39	0.81	1.08	VTABX Equity	Vanguard Ttl Intl Bnd-Adm
-2.12	3.09	0.75	-1.83	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-2.16	5.13	0.73	0.40	PTTRX Equity	Pimco Total Return Fund-Inst
-0.77	7.36	0.63	10.69	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.73	2.02	-0.01	0.72	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-0.87	4.53	0.21	-0.27	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.34	4.36	0.63	2.68	DODIX Equity	Dodge & Cox Income
-0.90	3.79	0.51	1.54	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.50	1.89	0.07	1.79	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 5.11.18. 10-Year Treasury Yield Low (1.36%) was July 8, 2016.

While Value strategies won the performance spoils by a wide margin in 2016, it has been an entirely different story since, as high-flying Growth stocks like Amazon, Facebook, Netflix and Tesla captured the fancy of investors. Of course, given that the yield on the 10-Year U.S. Treasury has more than doubled since July 8, 2016, the real "risk" in the financial markets has been in bonds, not stocks!

…not to mention the fact that the historical evidence shows that rising interest rates have, on average, not been a negative for stocks.

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THE PRUDENT SPECULATOR
Δ in 10-Year & Value/Growth

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.02%	543	12.0%	10.1%	11.2%	10.1%
More than 4.02%	542	14.9%	8.7%	13.2%	10.0%
3-Month Drop	521	14.0%	11.0%	11.8%	11.8%
3-Month Rise	560	13.0%	7.9%	12.5%	8.3%
6-Month Drop	521	13.6%	10.2%	11.5%	10.8%
6-Month Rise	554	13.2%	8.4%	12.7%	9.1%
12-Month Drop	533	12.4%	9.4%	10.3%	9.8%
12-Month Rise	530	14.4%	8.9%	13.9%	9.8%

From 06.30.27 through 12.31.17. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.02%	545	12.5%	10.1%	11.5%	10.4%
More than 4.02%	542	14.2%	8.3%	12.7%	9.3%
3-Month Drop	516	15.8%	12.7%	15.7%	11.9%
3-Month Rise	556	11.1%	5.8%	8.8%	7.8%
6-Month Drop	520	15.2%	12.0%	15.4%	11.4%
6-Month Rise	549	11.5%	6.2%	8.9%	8.2%
12-Month Drop	533	13.0%	10.3%	13.6%	10.0%
12-Month Rise	530	13.4%	7.4%	10.3%	9.1%

From 06.30.27 through 12.31.17. Subsequent 12-month return. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising rates will prove fatal for equities, but nine decades of returns data show that stocks in general, whether Small-Cap or Large-Cap, have performed admirably both concurrent with and subsequent to increases in the yield on the 10-Year Treasury, with Value stocks really asserting their dominance.

To be sure, we realize that higher yields on fixed income investments eventually should make those instruments more attractive, but we continue to believe that stocks look inexpensive versus bonds, with a 4.75% yield on the 10-Year the current level at which we might change our tune on this comparison.

AFAM CAPITAL — THE PRUDENT SPECULATOR
Fed Model: Favorable Earnings Yield

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively rich earnings yield of 4.77%.

That said, given that both earnings…

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Significant EPS Growth Estimated

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2019	$46.45	$174.01
9/30/2019	$44.43	$169.51
6/30/2019	$42.58	$165.31
3/31/2019	$40.55	$161.13
12/31/2018	$41.95	$157.00
9/30/2018	$40.23	$148.90
6/30/2018	$38.40	$140.00
3/31/2018	$36.42	$132.11
ACTUAL		
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
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

Source: Standard & Poor's. As of 5.10.18

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 was nicely better than the average earnings-beat rate over the prior 5 years.

S&P 500 Quarterly Earnings Comparisons							
	BEAT	MISSED	MET		BEAT	MISSED	MET
Q4 2017	73.5%	18.1%	8.4%	Q1 2015	67.7%	22.9%	9.4%
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%	AVERAGE	68.9%	21.8%	9.3%

Source: Standard & Poor's and Bloomberg

…and dividends…

THE PRUDENT SPECULATOR
Dividends Have Grown Over Time

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2018 (YTD)	168	1	0	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3
2005	306	10	9	2

Source: Standard & Poor's. As of 4.30.18

S&P 500 DIVIDENDS PER SHARE	
2019 (Est.)	$57.76
2018 (Est.)	$53.39
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88
2005	$22.22

Source: Bloomberg. As of 5.11.18

…are very likely to be higher as the calendar moves forward, it is hard to envision a scenario where stocks will not remain very appealing for those who share our long-term time horizon.

We would seem to be in the minority on this view, however, given the long-time investor infatuation with fixed income,…

THE PRUDENT SPECULATOR
Bonds Remain Stunningly Popular

While many think folks are infatuated with U.S. equities, data from the Investment Company Institute show that far more dollars have flowed out of domestic stock mutual funds/ETFs than have flowed in over the last three-plus years. Bonds have been the beneficiary of the exodus.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
January-15	-14,465	17,535	March-16	7,711	29,296	May-17	-10,816	33,128
February-15	5,547	30,321	April-16	-12,610	22,114	June-17	-8,022	29,420
March-15	-1,494	4,905	May-16	-14,252	16,925	July-17	-12,386	29,164
April-15	-34,681	11,027	June-16	-15,530	16,623	August-17	-18,937	26,418
May-15	-17,287	5,010	July-16	292	33,575	September-17	-9,636	36,476
June-15	-7,023	6,324	August-16	-9,956	30,859	October-17	3,211	38,818
July-15	-14,864	-1,255	September-16	-5,713	24,669	November-17	-4,429	21,628
August-15	-18,569	-18,122	October-16	-23,109	13,855	December-17	-9,066	19,158
September-15	-4,725	-10,849	November-16	22,993	-13,289	January-18	10,777	56,779
October-15	-807	15,397	December-16	18,859	-4,142	February-18	-41,334	1,772
November-15	654	-5,573	January-17	4,966	31,061	March-18	-22,313	15,920
December-15	476	-25,043	February-17	17,530	34,026	April-18	-11,389	23,618
January-16	-27,222	7,686	March-17	8,906	36,632	**Totals:**	**-286,191**	**675,897**
February-16	-9,108	11,915	April-17	-8,370	22,116			

…with even the latest numbers on what folks are saying and doing with their money suggesting that there is still little in the way of excitement for stocks.

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THE PRUDENT SPECULATOR
Still Little Enthusiasm for Equities

AAII Investor Sentiment Survey

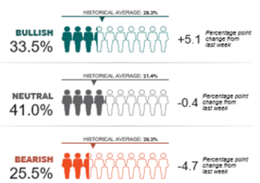
Since 1987, AAII members have been answering the same simple question each week:

[Do you feel the direction of the market over the next six months will be up (bullish), no change (neutral) or down (bearish)?]

The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.

Survey Results for Week Ending 5/9/2018

Data represents what direction members feel the stock market will be in next 6 months.



Note: Numbers may not add up to 100% because of rounding.

The AAII Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

AAII Sentiment Survey:

Neutral sentiment rose to its highest level in almost two months.

With the major market averages near breakeven on the year, the AAII Sentiment Survey shows less Bulls than normal, and investors are again back to selling U.S. stocks, while continuing to buy bonds, per ICI numbers on mutual and exchanged traded fund flows.

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

Week Ended	5/2/2018	4/25/2018	4/18/2018	4/11/2018	4/4/2018
Total Equity	-2,459	-879	-251	5,213	-4,501
Domestic	-2,992	-3,777	-2,377	3,775	-6,018
World	533	2,898	2,126	1,437	1,517
Hybrid	-887	-633	-1,090	-1,101	-932
Total Bond	3,471	2,242	8,492	6,470	2,943
Taxable	3,634	2,338	9,321	7,166	3,053
Municipal	-163	-96	-830	-696	-110
Commodity	-82	508	167	1,120	547
Total	43	1,237	7,317	11,702	-1,944

Source: Investment Company Institute

No doubt, anything can happen in the equity markets, and we have endured our share of pain over the years. Still, our top-of-table performance ranking illustrates the merits of keeping the faith through thick and thin,…

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THE PRUDENT SPECULATOR
Staying the Course Has Rewards

Despite enduring two-dozen market pullbacks of at least 12% since its launch in 1977, *The Prudent Speculator* tops the Hulbert rankings.

Start Date		End Date	Price Return %	Start Date		End Date	Price Return %
11.03.15	to	02.11.16	-13.3	03.24.00	to	04.04.01	-27.8
05.21.15	to	08.25.15	-12.4	07.16.99	to	10.15.99	-12.1
04.29.11	to	10.03.11	-19.4	07.17.98	to	08.31.98	-19.3
04.23.10	to	07.02.10	-16.0	07.16.90	to	10.11.90	-19.9
01.06.09	to	03.09.09	-27.6	10.21.87	to	12.04.87	-13.3
11.04.08	to	11.20.08	-25.2	08.25.87	to	10.19.87	-33.2
05.19.08	to	10.27.08	-40.5	10.10.83	to	07.24.84	-14.4
10.09.07	to	03.10.08	-18.6	11.30.81	to	08.12.82	-18.9
11.27.02	to	03.11.03	-14.7	11.28.80	to	09.25.81	-19.7
08.22.02	to	10.09.02	-19.3	02.13.80	to	03.27.80	-17.1
01.04.02	to	07.23.02	-32.0	09.12.78	to	11.14.78	-13.6
05.21.01	to	09.21.01	-26.4	12.31.76	to	03.06.78	-19.1
						AVERAGE	**-20.6**

Down Markets for the S&P 500 Price Return index are defined as periods where the index fell more than 12% without an intervening 12% advance. SOURCE: Al Frank using data from Bloomberg

Hulbert Rankings
30-Year Performance Scorecard
Newsletter Averages

Newsletter	Annualized
Prudent Speculator, The	14.71
Investment Reporter, The	12.17
Fidelity Monitor & Insight	12.05
Turnaround Letter, The	11.77
NoLoad FundX	11.71
Investment Quality Trends	11.53
Bob Brinker's Marketimer	10.89
PaulMerriman.com	7.18
S&P 500 Total Return	10.47

As of 3.31.18. Source: http://hulbertratings.com/30-year-scoreboard/

…though we concede that Washington remains a major wildcard, as evidenced by the rhetoric and stock-price-pressures related to the drug-pricing issue,…

THE PRUDENT SPECULATOR
Bad News in Pharma Discounted

Despite the relatively tame plan announced on Friday to "bring soaring drug prices back down to earth," we respect that industry players will remain in Washington's cross-hairs, but pharma-related stocks trade at attractive valuations, with many also offering generous dividend yields.

Pharma Companies Under the Microscope

Symbol	Industry	Price	52-Wk High	52-Wk Low	Div Yield	FY 18 P/E	FY 18 P/E	FY 18 P/E	FY 18 Est	FY 19 Est	FY 20 Est
CAH	Health Care Distributors	$55.30	$80.37	$50.79	3.4%	11.0	10.3	9.6	$5.02	$5.34	$5.76
CVS	Health Care Services	$64.41	$84.00	$60.14	3.1%	9.4	8.9	8.1	$6.86	$7.23	$7.93
MCK	Health Care Distributors	$149.21	$178.86	$134.25	0.9%	11.7	11.1	10.3	$12.70	$13.39	$14.48
WBA	Drug Retail	$64.09	$85.61	$61.56	2.5%	10.8	9.9	9.0	$5.96	$6.49	$7.16
AMGN	Biotechnology	$173.89	$201.23	$152.16	3.0%	12.7	12.3	11.8	$13.71	$14.19	$14.70
BIIB	Biotechnology	$282.39	$370.57	$244.28	0.0%	11.8	10.8	10.2	$23.84	$26.12	$27.66
GILD	Biotechnology	$66.16	$89.54	$63.76	3.4%	10.6	10.1	9.5	$6.24	$6.54	$6.93
JNJ	Pharmaceuticals	$127.24	$148.32	$121.28	2.8%	15.7	14.8	14.0	$8.12	$8.58	$9.09
MRK	Pharmaceuticals	$59.69	$66.41	$52.83	3.2%	14.1	13.2	12.0	$4.23	$4.53	$4.99
PFE	Pharmaceuticals	$35.50	$39.43	$31.67	3.8%	12.0	11.6	11.1	$2.95	$3.07	$3.21
SHPG	Biotechnology	$166.45	$192.15	$123.73	0.6%	10.9	10.3	9.6	$15.21	$16.19	$17.37
SNY	Pharmaceuticals	$38.38	$50.65	$37.43	4.0%	12.0	11.2	10.5	$3.21	$3.43	$3.64
	Source: AFAM Capital using data from Bloomberg. As of 5.11.18										

…even as short-sighted traders can create opportunities for long-term-oriented bargain hunters.

THE PRUDENT SPECULATOR
Itchy Trigger Fingers Can Be Costly

Traders are always looking for an edge and many dumped shares of giant pharmacy benefits manager and drug-store operator CVS Health (CVS) on Friday when President Trump proclaimed that "Middlemen Have Gotten Very, Very Rich" as he began to unveil his plan to tackle soaring drug prices, but the bark was far worse than the bite and CVS rebounded from a mid-day skid of 2%+ to gain more than 3% at the close.

So, to summarize, with sentiment far from optimistic, interest rates still very low by historical standards, corporate profits poised to enjoy significant growth this year and next, the global economies showing modest to moderate growth and equity valuations far more reasonable after this year's churning, we see plenty of reasons to remain positive on the U.S. and global equity markets.

Stock Updates

Jason Clark provides updates on 9 of our recommendations in the news last week…

Speaking of the global equity markets, engineering and manufacturing giant **Siemens AG** (SIEGY – $68.81) saw its shares climb more than 5% last week after releasing fiscal Q2 financial results. For the quarter, Siemens reported adjusted EPS of €2.34, which was better than analyst expectations and revenue of €20.14 billion, which slightly trailed consensus forecasts. Orders during the quarter were also strong at €22.3 billion.

During the analyst call, CFO Ralph Thomas commented on the quarter, “We were pleased with a healthy book-to-bill ratio of 1.11 times and the new record backlog of more than €129 billion in the Industrial Business with a solid gross margin quality. Comparable orders were slightly lower 1% due to a substantially higher volume from large orders in the energy-related businesses one year ago. Base orders below €50 million were clearly up 9% on a nominal basis. Organic revenue was overall flat with growth in most divisions driven by an excellent short cycle performance offsetting weakness in Power and Gas. Industrial Business profit margin was at 11.0%, fueled by an outstanding performance at Digital Factory. Six out of eight divisions were in or even above the targeted range.”

Management said that it continues to expect geopolitical uncertainties such as trade restrictions that may affect investment sentiment. In the company’s earnings release, it offered this on the rest of 2018, “Following the strong results achieved in the first half of fiscal 2018, we raise our outlook for basic EPS from net income to the range of €7.70 to €8.00, excluding severance charges, up from the range of €7.20 to €7.70. Furthermore, we confirm our expectation of modest growth in revenue, net of effects from currency translation and portfolio transactions, and continue to anticipate that orders will exceed revenue for a book-to-bill ratio above 1.0 for the full fiscal year. We continue to expect a profit margin of 11.0% to 12.0% for our Industrial Business also excluding severance charges. This outlook excludes charges related to legal and regulatory matters and potential effects which may follow the introduction of a new strategic program.”

Although Siemens’ shares are down more than 8% over the last year, we still like the company’s worldwide footprint, diversified business portfolio and strong emphasis on the digitization of infrastructure. Noting that each SIEGY ADR represents 0.5 of an ordinary Siemens share, and that the EPS numbers cited above are based on the ordinary shares, the ADRs we own and recommend trade for around 14 times NTM earnings expectations and yield 2.5% after foreign taxes. Our Target Price has been boosted to $94.

Shares of German mail and package carrier **Deutsche Post AG** (DPSGY – $41.06) fell more than 6% last week. The culprit was a poorly received Q1 financial results release. For the quarter, DPSGY said it earned €0.48 (vs. €0.55 est.) on sales of €14.75 billion (vs. €15.32 billion est.). The quarter was negatively impact by increased Post-eCommerce wage and transport costs. Improved market share and increased volumes in the Express division were performance positives.

“Overall, we had a good start to the year, although we still have a lot of work ahead of us during the remainder of the year. Global e-commerce continues to boom, meaning that the most important growth driver for our businesses is still intact. We remain confident that we will achieve our ambitious goals for 2018 and beyond,” said CEO Frank Appel. The company continues to project an increase in operating profit to around €4.15 billion for full-year 2018. The Post – eCommerce – Parcel (PeP) division is expected to generate EBIT of around €1.5 billion.

An EBIT of around €3.0 billion is anticipated from the DHL divisions. The company continues to target EBIT of more than €5 billion by 2020.

We continue to believe that DPSGY (which sports a net yield of 3.3%) can benefit from the Amazon-style online shopping that hasn't taken over Europe yet, as well as its leading position in more profitable European express and parcel mail (most other carriers haven't diversified yet in Europe). While online shopping might not reach the level it has in the U.S., primarily because of different consumer behavior, a global marketplace of goods available at the click of a button is incredibly enticing. Our Target Price for DPSGY now stands at $58.

Discount retailing giant **Walmart** (WMT – $83.38) took its heavyweight e-commerce fight with Amazon to India last week, reporting that it will buy a 77% stake in Flipkart Group for $16 billion. Investors showed their skepticism of the deal by sending WMT shares down 4.7% over the five trading days, as the transaction is expected to reduce Walmart's EPS by $0.25 to $0.30 during the current fiscal year, and up to $0.60 per share next fiscal year as the retailer invests to increase Flipkart sales.

While many were not enthused about the price paid for the unprofitable-to-date Flipkart, we can't ignore the long-term potential as the market in India boasts a rising middle class and plenty of room for growth in mobile adoption, e-commerce and retail overall. Studies suggest that a small percentage of India's 1.3 billion people currently shop online, and the majority of India's retail sales are fragmented. WMT CEO Doug McMillon elaborated, "India is one of the most attractive retail markets in the world, given its size and growth rate, and our investment is an opportunity to partner with the company that is leading transformation of e-commerce in the market. As a company, we are transforming globally to meet and exceed the needs of customers and we look forward to working with Flipkart to grow in this critical market. We are also excited to be doing this with Tencent, Tiger Global and Microsoft, which will be key strategic and technology partners. We are confident this group will provide Flipkart with enhanced strategic and competitive advantage. Our investment will benefit India providing quality, affordable goods for customers, while creating new skilled jobs and fresh opportunities for small suppliers, farmers and women entrepreneurs."

Mr. McMillon added, "If we were looking at this company with say a three to five-year horizon we wouldn't invest elsewhere beyond North America. The purchase is about setting the company up for growth and profits in the future." Judith McKenna, head of Walmart International, said of Flipkart in an interview, "It's got scale, it's got growth, but it's also got a great management team. This is about the growth strategy the team has been clear about for some time." That strategy includes focusing on Walmart's core North American market, along with high-growth areas in China and India. To further support this focus, Walmart recently announced it had sold control of U.K. grocery chain ASDA to J Sainsbury PLC, and there have been reports that WMT is in talks to sell a majority stake in its Brazilian operations.

There has also been much speculation that the likes of **Alphabet** (GOOG – $1,098.26) might join Walmart in its investment in Flipkart. "We continue to have discussion with other potential investors, but it's too early to say how those will turn out," Ms. McKenna said. WMT's investment stake could move lower if those deals are completed, the company said in a release.

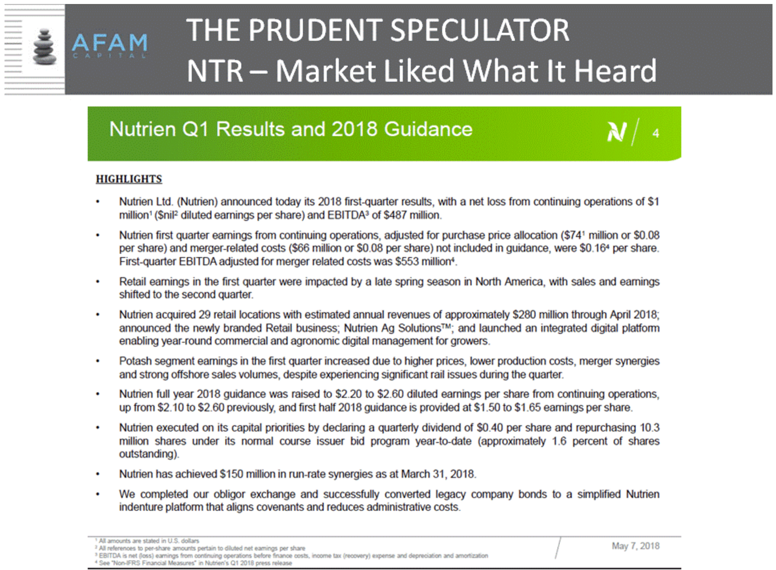
And it was reported that Walmart's purchase agreement includes a clause whereby the company could take Flipkart public four years after the transaction closes.

While there are lots of potential benefits, there are always risks. WMT paid a hefty price, but we could look back in the future and say it was a bargain. Amazon is a major player in India, and we all know that the online colossus has deep pockets, experience and a willingness to go to battle. Still, we have long believed that the bigger potential for WMT has been overseas, and we like that the company is focusing on regions with huge potential. The competitive landscape won't be easy, just as is the case here in the U.S., but we think the company's financial strength, strong free cash flow generation and willingness to adapt and evolve will spell additional success over the long term, and ultimately better returns for investors. That said, with the cash outlay and management's projection for an EPS reduction over the next couple of fiscal years, we have reduced our Target Price on WMT to $108.

Canadian crop input and service provider **Nutrien** (NTR – $48.87) watched its shares jump 5% last week after announcing in its Q1 financial release that it was increasing its full-year earnings guidance and that it saw business improvements in potash and nitrogen. That said, NTR's Q1 top and bottom-line results fell short of consensus analyst expectations. Nutrien reported adjusted EPS of $0.16 on revenue of $3.70 billion (versus expectation of $0.19 and $3.76 billion).

"Nutrien's first quarter was affected by a late start to the spring season across North America and west coast rail performance issues. However, we expect a strong second quarter with improved grower margins and strong demand and firm prices for most crop inputs," explained CEO Chuck Magro. "We executed on our strategic and capital priorities with a meaningful return of capital to shareholders, including an increase in our dividend and half a billion dollars in shares repurchased. We made significant progress towards achieving our annual synergy target of $500 million. We also continued to grow our leading global retail network, through numerous accretive acquisitions and the launch of our digital platform. The divestiture of equity investments remains on track and the expected funds will provide further opportunity to accelerate growth and enhance shareholder returns."

Management said the company's effective tax rate on continuing operations will be in the range of 22% to 24%, which is down from their previous guidance primarily due to changes in forecasted earnings mix. And looking at earnings, Nutrien's full-year 2018 guidance was raised to $2.20 to $2.60 in diluted EPS from continuing operations, up from $2.10 to $2.60 previously.


THE PRUDENT SPECULATOR
NTR – Market Liked What It Heard

Nutrien Q1 Results and 2018 Guidance 4

HIGHLIGHTS

- Nutrien Ltd. (Nutrien) announced today its 2018 first-quarter results, with a net loss from continuing operations of $1 million[1] ($nil[2] diluted earnings per share) and EBITDA[3] of $487 million.
- Nutrien first quarter earnings from continuing operations, adjusted for purchase price allocation ($74[1] million or $0.08 per share) and merger-related costs ($66 million or $0.08 per share) not included in guidance, were $0.16[4] per share. First-quarter EBITDA adjusted for merger related costs was $553 million[4].
- Retail earnings in the first quarter were impacted by a late spring season in North America, with sales and earnings shifted to the second quarter.
- Nutrien acquired 29 retail locations with estimated annual revenues of approximately $280 million through April 2018; announced the newly branded Retail business; Nutrien Ag Solutions™; and launched an integrated digital platform enabling year-round commercial and agronomic digital management for growers.
- Potash segment earnings in the first quarter increased due to higher prices, lower production costs, merger synergies and strong offshore sales volumes, despite experiencing significant rail issues during the quarter.
- Nutrien full year 2018 guidance was raised to $2.20 to $2.60 diluted earnings per share from continuing operations, up from $2.10 to $2.60 previously, and first half 2018 guidance is provided at $1.50 to $1.65 earnings per share.
- Nutrien executed on its capital priorities by declaring a quarterly dividend of $0.40 per share and repurchasing 10.3 million shares under its normal course issuer bid program year-to-date (approximately 1.6 percent of shares outstanding).
- Nutrien has achieved $150 million in run-rate synergies as at March 31, 2018.
- We completed our obligor exchange and successfully converted legacy company bonds to a simplified Nutrien indenture platform that aligns covenants and reduces administrative costs.

[1] All amounts are stated in U.S. dollars
[2] All references to per-share amounts pertain to diluted net earnings per share
[3] EBITDA is net (loss) earnings from continuing operations before finance costs, income tax (recovery) expense and depreciation and amortization
[4] See "Non-IFRS Financial Measures" in Nutrien's Q1 2018 press release

May 7, 2018

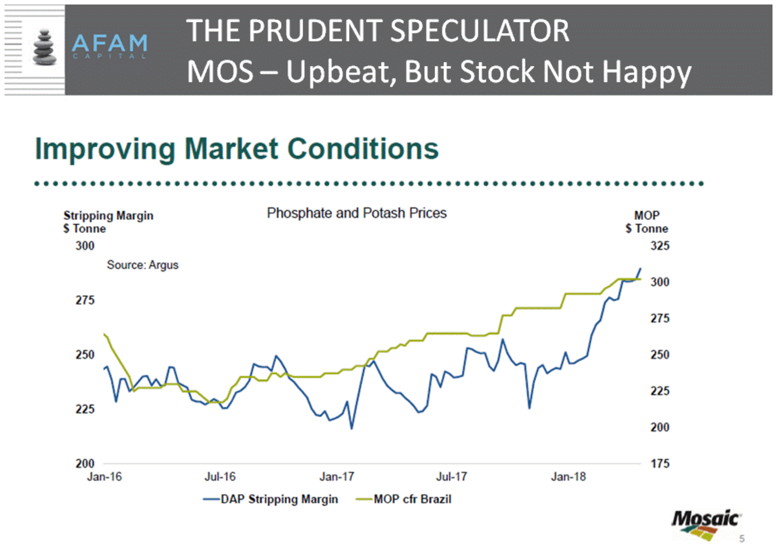
Like with our other agriculture focused companies, we continue to believe that the long-term opportunity is abundant as the global population swells, further increasing demand and reducing arable land, and as more folks in emerging and frontier countries move into the middle class (which often is linked to a higher protein diet, which requires more grain). In the near term, we see Nutrien benefiting from higher potash pricing and from up to $500 million in annual synergy savings from the Agrium/ Potash Corp merger of equals by year-end 2019. NTR shares yield 3.3%, and our Target Price has been bumped up to $66.

Shares of **Mosaic** (MOS – $26.56) went the other way, falling more than 3% last week after the crop nutrient concern reported Q1 financials that included adjusted EPS that came in well below analyst expectations. That said, the company delivered top-line results that exceeded forecasts and bumped its full-year expectations. During the period, higher potash and phosphate prices were partially offset by lower volumes due to a delayed start to the U.S. growing season and weather-related rail issues in transporting potash from Canadian mines.

"We saw strong fundamentals in the first quarter, and we expect that positive momentum to continue," said CEO Joc O'Rourke. "We've increased our full year adjusted earnings per share guidance to reflect improving market conditions and strong operational performance across business units. Our excellent progress on the transformational initiatives at Mosaic Fertilizantes is expected to generate substantial earnings growth in the second half of 2018. Excellent execution and improving market conditions are driving stronger cash flow expectations and providing Mosaic with an opportunity to increase the pace of debt reduction. In fact, we have prepaid $300 million in debt since year-end and have increased our target to pay down $500 million in long term debt this year, which would bring us closer to our through-cycle balance sheet targets."

Mr. O'Rourke added, "Delays in new fertilizer supply coming to market, as well as strong demand and improving farm economics bode well for Mosaic's future. Mosaic's transformation is well underway in all of our businesses, which, combined with positive market trends, puts

Mosaic in an excellent position to create sustainable shareholder value over the long term." The company said that it is now expecting full-year 2018 adjusted EPS of between $1.20 and $1.60. This range is up from the $1.00 to $1.50 that management had guided to in mid-February.



Despite a tough 2017, highly cyclical Mosaic shares are up a bit in 2018. We are still long-term fans, and think in the near term that it is difficult to ignore the improving undercurrents of the phosphate and potash markets. MOS is also benefitting from a solid Brazilian agriculture market. Further, we continue to believe that the company will be a major long-term beneficiary of the global agricultural story, as discussed in our Nutrien write-up. Our Target Price for MOS is now $45.

The disaster referenced above was **Symantec** (SYMC – $19.52), as shares of the security, storage and systems solution company cratered more than 33% on Friday, even as the company reported fiscal Q4 financial results that exceeded expectations. Symantec posted adjusted EPS for the period of $0.46 on revenue of $1.23 billion, versus analyst expectations of $0.39 and $1.19 billion, respectively. "We are pleased with our fourth quarter results," said CEO Greg Clark. "We had strong performance in our Enterprise Security and our Consumer Digital Safety segments as our solutions across both businesses drove increased adoption. Our customers recognize the superior protection, cross-product integration and the lower overall cost of ownership of our Integrated Cyber Defense platform. This is driving the growth in implied billings as we continue to close larger deals with multi-product platform sales. In Consumer Digital Safety, growth was driven by increased average revenue per user, retention rates and consumer digital safety adoption. We are on track to launch additional Consumer Digital Safety integrated offerings in fiscal 2019."

The problems arose when management offered fiscal 2019 full-year guidance that was below expectations and, more importantly, disclosed that the company was conducting an internal investigation that would delay the filing of its annual report and could potentially lead to a restatement of earnings. Probably even worse was the lack of detail, with SYMC executives refusing to take questions of any kind on the company's earnings call, which left the analyst community scrambling to downgrade the stock.

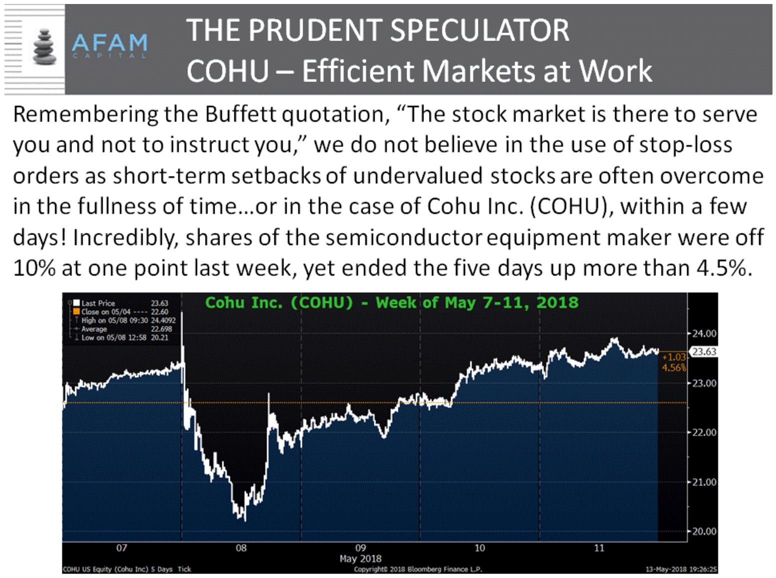
Obviously, there isn't much we can say about the internal audit, as like everyone else, we are not privy to any information, aside from the fact that the Board's audit committee is looking into "concerns raised by a former employee." Additionally, we know that the Board has retained outside counsel to advise it and alerted the U.S. Securities and Exchange Commission. That said, long time followers know that in general, we are among the most patient investors around, so we usually do not overreact to situations like this that lack detail and data. While we have made mistakes in this area before, we can look back to our recent investment in Boeing to show a positive example of staying calm and waiting for information to come to light.

As many will remember, we bought the giant aircraft maker and defense contractor for most of our managed account clients utilizing our Select Dividend and Dividend-Value strategies on February 10, 2016 in the $117 to $118 range. Believe it or not, the morning after our purchase, news broke that the company was facing an SEC probe for "accounting irregularities" in regard to its 787 Dreamliner and 747 programs, with the shares hitting an intra-day low of $102.10 and closing at $108.44 on February 11. Happily, the accounting issues quickly faded and Boeing's top and bottom lines benefitted mightily from strong airplane orders, allowing us to sell our final tranche of Boeing at prices no lower than $321.76 earlier this year.

While we are not suggesting that SYMC will triple in price from here, nor that the road ahead won't be tough, we hardly thought it prudent to lock in massive one-day losses, even as we note that we initially recommended SYMC shares at $17.41 back in 2014. That is not to say that we haven't slashed our Target Price to $29 as management's fiscal 2019 full-year guidance of revenue between $4.7 billion and $4.9 billion, and adjusted EPS between $1.50 and $1.65, was very disappointing…and we do not even know if those figures are reliable.

No doubt, Symantec is under our close scrutiny, and we won't hesitate to part with the shares if our thesis changes, but at this point we remain long-term fans of the businesses in which the company operates. We continue to like the additional emphasis on enterprise security and we suspect that cyber-crime and cyber-terrorism will, unfortunately, remain big problems that will constantly remind both enterprise customers and consumers why it's important to have SYMC's cyber protection. Of course, given that we focus heavily on the financials associated with our companies, we are not yet willing to average down on our position until we gain a greater understanding of the accounting issues and until we can again trust the numbers.

Semiconductor equipment maker **Cohu Inc.** (COHU – $23.63) not only reported its Q1 financial results last week, but also announced that it was making an acquisition. Initially investors pushed COHU shares down by a double-digit percentage, but as the week wore on, the stock price rallied sharply, so much so that COHU ended the five days up by more than 4.5%, helping to illustrate why we are willing to remain patient with SYMC.



On the earnings front, COHU reported revenue for Q1 of $95.2 million, versus consensus estimates of $93.1 million. Adjusted EPS for the period came in at $0.36, versus expectations of $0.33. CEO Luis Müller stated, “Results generally exceeded our revised guidance due to the accelerated ramp of thermal subsystems for mobile processor test. We captured two new large customers in the first quarter, saw continued momentum to support our growth projections for our contactor business, and launched the new Eclipse XTA that enables interface to factory robots and incorporates new diagnostics and process monitoring capabilities in support of Industry 4.0 standards…We have solid order momentum and good visibility into automotive, IoT and industrial markets and project first half 2018 sales to grow approximately 11% year-over-year.”

The earnings report sounded pretty good to us, and we might have raised our Target Price on the news, but in a separate press release, Cohu announced that it has entered into a definitive merger agreement with Xcerra Corp whereby it will acquire the rival test equipment maker for approximately $796 million. “This proposed acquisition is a powerful combination of two complementary companies that will accelerate our strategy to diversify our product offerings and strengthen Cohu’s position as a global leader in back-end semiconductor equipment. The depth and breadth of the combined product portfolios, engineering and product development resources, as well as the global customer support platforms will enable us to deliver comprehensive semiconductor back-end solutions that better meet the future needs of our customers,” explained Mr. Müller.

He continued, “The acquisition of Xcerra increases our addressable market to approximately $5 billion across handlers, contactors, test and inspection, further strengthening our ability to fully capitalize on the secular growth opportunities in the automotive, IoT, industrial and mobility markets. We are excited to welcome the Xcerra team to Cohu and look forward to an efficient completion of the transaction, with a focus on delivering long-term value to our customers, employees and shareholders.”

The transaction is expected to be immediately accretive to non-GAAP earnings per share and generate over $20 million of annual run-rate cost synergies within two years of closing, excluding stock-based compensation and other charges. Of course, the acquisition puts a temporary end to one of our big attractions to the company, namely COHU's pristine balance sheet. True, COHU still will have a solid financial framework and we think the acquisition will be a long-term positive, but for now we have edged our Target Price lower to $31.

Shares of **Tutor Perini** (TPC – $19.90) dropped last week after the construction company reported Q1 financial results that fell short of consensus analyst top and bottom-line expectations. While analysts were looking for revenue of $1.04 billion for the period, TPC reported $1.03 billion. Adjusted EPS for Q1 came in at $0.04, versus consensus estimates of $0.27. The quarter was negatively impacted by the unexpected outcome of an arbitration decision related to a subcontractor dispute on a civil segment project in New York that was completed in 2013. Additionally, the quarter's slowing was caused by a decrease in various electrical projects in New York that are completed or nearing completion, as well as reduced project execution activity on a large tunnel project on the West Coast that is also nearing completion.

"Our earnings for the first quarter of 2018 were below expectations, largely because of the unexpected arbitration decision. However, we anticipate that stronger performance later this year should offset the weakness experienced this quarter," remarked CEO Ronald Tutor. "Our record backlog and $1 billion of pending civil awards reflect our continued success in capturing significant project opportunities. We believe that we are well positioned to win even more, sizable civil awards as long-term funding is released, which should result in continued backlog growth."

While we were extremely disappointed in the quarter and another period of poor execution, we were very pleased to see TPC's backlog swell. The company's business backlog as of March 31, 2018 was $8.5 billion, a record high, and up 18% compared to $7.2 billion as of March 31, 2017. New awards and adjustments to contracts in process totaled $2.2 billion, with those awards including the previously announced $1.4 billion Newark Liberty International Airport Terminal One Design-Build project, a government office building project in California valued at $215 million and various electrical projects in New York and in the western and southern United States collectively valued at $147 million.

Tutor also has been identified as the low bidder on several new civil projects, including the $800 million Southwest Light Rail Transit (METRO Green Line Extension) project in Minneapolis, a $109 million tunneling project in Los Angeles and a $93 million bridge project in New York City. TPC anticipates booking the contract awards for these projects as soon as the second quarter of 2018.

Despite the awful first quarter, we note that management said that based on its current backlog and market outlook, it is able to affirm guidance for full-year 2018 (with adjusted EPS expected in the range of $1.90 to $2.30). The company continued to emphasize that its 2018 earnings projections are anticipated to be weighted towards the second half of the year, consistent with the cyclicality of the firm's business.

We have to admit that TPC remains a frustrating holding. On one hand, we are enthused by the cheap valuation, backlog builds and the potential catalysts from increased infrastructure spend in the U.S. On the other hand, the company seems to consistently come up short in execution and often disappoints relative to expectations. Keeping in mind that every stock is always fighting to keep its place in our portfolios, we will continue to maintain our position in TPC as we desire exposure to the industry and we can't ignore that shares change hands at just 8 times the next-twelve-month earnings expectation and for just 58% of book value. Nevertheless, our Target Price has been cut to $35.

Movies, entertainment and theme park company **Walt Disney** (DIS – $102.07) saw its shares quickly drop after posting terrific fiscal Q2 financial results, but they recovered and ended the week up almost 1%. Disney earned $1.84 per share in the quarter, versus consensus estimates of $1.70, on sales of $14.55 billion (vs. $14.13 billion est.). "Driven by strong results in our parks and resorts and studio businesses, our Q2 performance reflects our continued ability to drive significant shareholder value," said CEO Robert A. Iger. "Our ability to create extraordinary content like *Black Panther*and *Avengers: Infinity War* and leverage it across all business units, the unique value proposition we're creating for consumers with our DTC platforms, and our recent reorganization strengthen our confidence that we are very well positioned for future growth."

It is important to note that while management did not discuss **Comcast's** (CMCSA – $31.90) continued desire to acquire Fox and/or Sky on the call, Mr. Iger reiterated the importance of the assets and the firm's desire to buy both the Fox media assets and Sky. We are not sure at what level Disney is willing to go if they need to match or beat a potential Comcast bid, but we never lose sight of the admonition from Warren Buffett, "The right side to be on in a bidding war is the losing side."

Assuming Disney lands the Fox assets, we would see the acquisition strengthening an already best-in-class content portfolio. Also, DIS should enjoy increased production and marketing scale. Further, we like that this combination affords Disney the chance to meaningfully enhance its global reach and should spur growth because of greater access to emerging market regions. We also like that the acquisition of Fox's sports assets should significantly enhance ESPN's sports leadership position in the U.S., while all offerings could be leveraged direct to the consumer via BAMtech.

That said, we also are very fond of the stand-alone Disney, especially as we see the movie biz continuing to do well. *Black Panther* has grossed over $1.3 billion worldwide and *Avengers: Infinity War* has already exceeded $1.6 billion in global box office after just opening in China. And there are many more high potential films coming out this year, including *Solo, a Star Wars Story* (which already has more ticket pre-sales than *Black Panther* enjoyed) and *Incredibles 2*. Shares are trading at a bit less than 14 times NTM earnings expectations and carry a 1.7% dividend yield. Our Target Price for DIS has been raised to $146.