EXECUTIVE SUMMARY

Volatility Perspective - Not Sure Why Stocks Fell and Rose Thursday and Friday
Apple Update - Buffett Loads Up and Solid Earnings
Time for Value - Hoping for No *Barron's* Cover Jinx
3.9% Unemployment - 2000 Redux?
FOMC Meeting - No Change to Interest Rates
Inflation - 2% to 3% Not a Problem, on Average, For Stock
History Lesson - Rising Inflation and 1966-1982 Equity Returns
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Q1 Earnings - Nearly 80% Beating the Street
Stock News - Updates on STX, GILD, CMI, CAH, TPR, FLR, PRU, HFC & MDC

Market Review

What was shaping up to be a pretty crummy week ended on a high note, with stocks posting a big rally on Friday, after reversing much of an outsized intraday plunge on Thursday. As is often the case, there really was no major catalyst for the decline early in the week, though market commentators blamed worries about trade and concerns that corporate profit growth had peaked. Of course, while nothing really changed in investor thinking on either of those fronts, stocks rebounded late in the week, with Warren Buffett's disclosure that he had upped his stake in **Apple** (AAPL - $183.83) by some 75 million shares in Q1 as good a reason as any for helping improve investor spirits.

No doubt, it didn't hurt that the technology hardware designer and manufacturer turned in earnings per share of $2.73 in fiscal Q2 2018 (vs. $2.64 est.). Apple had sales of $61.1 billion, versus the $60.9 billion estimate. Despite many negative supply and demand reports from analysts preceding the earnings report, Apple said it sold 52.2 million iPhones (passing $100 billion in revenue), narrowly missing the analyst consensus estimate by around 100,000 devices. The average sale price for the iPhone family was $728, with China revenue rising 21% year-over-year.

CEO Tim Cook said, "We're now halfway through our fiscal 2018 with nearly $150 billion in revenue and double digit growth in all of our geographic segments. We generated almost $34 billion in earnings in six months, and we're very bullish on Apple's future. We have the best pipeline of products and services we've ever had. We have a huge installed base of active devices that is growing across all products, and we have the highest customer loyalty and satisfaction in the industry. Our services business is growing dramatically. Our balance sheet and our cash flow generation are strong and that allows us to invest significantly in our product roadmap and still return a very meaningful amount of capital to our shareholders. Recent corporate tax reform enables us to deploy our global cash more efficiently. In the United States, we expect our direct investment in the economy to exceed $350 billion over the next five years, including $30 billion in capital expenditures. And we expect to create over 20,000 U.S. jobs at Apple over that timeframe. We're narrowing the site selection for a new U.S. campus, and we look forward to sharing more information on that later this year."

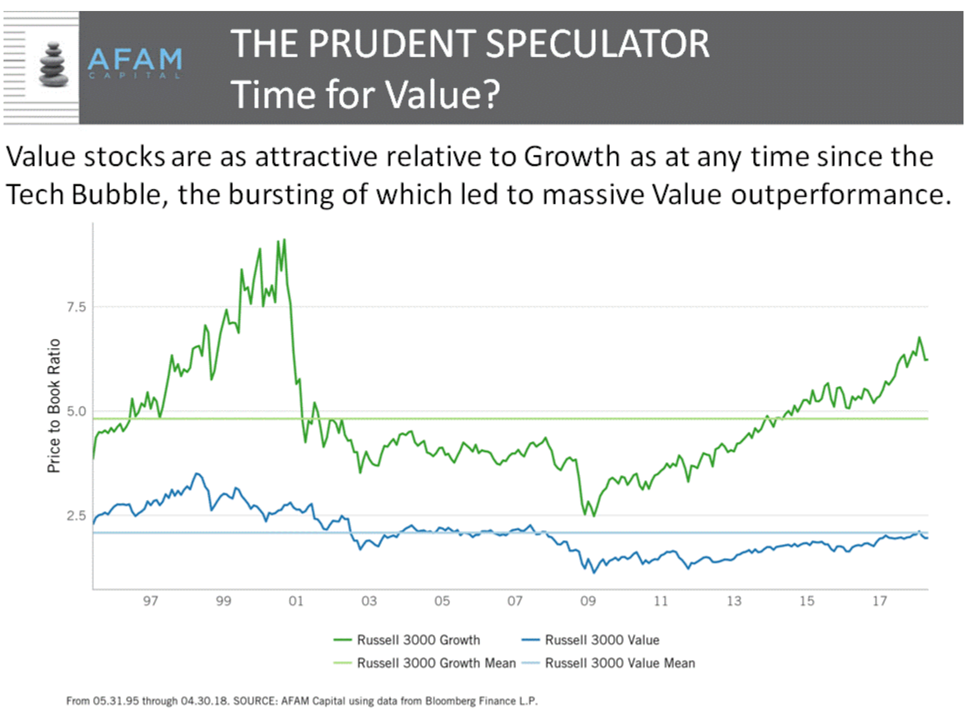
CFO Luca Maestri reminded investors of the gigantic cash pile and tax reform-related changes, "Given our strong confidence in Apple's future and the value that we see in our stock, our board has authorized a new $100 billion share repurchase program which we will start executing during the June quarter. Considering the unprecedented size of this new authorization, we want to be particularly thoughtful and flexible in our approach to repurchasing shares. Our intention is to execute our program efficiently and at a fast pace. As in the past, we will provide regular updates on our capital return activities at the end of every quarter. We're also raising our dividend for the sixth time in less than six years. As we know, it is very important for our investors who value income. The quarterly dividend will grow from $0.63 to $0.73 per share, an increase of 16%. This is effective with our next dividend which the board has declared today, payable on May 17, 2018, to shareholders of record as of May 14, 2018."

We like that Apple continues to expand in emerging markets, with China leading the way. We continue to be happy with Tim Cook's leadership; and with the stock's performance since Steve Jobs' passing. We are pleased that the expensive iPhone X is selling well, with Tim Cook noting, "Customers chose iPhone X more than any other iPhone each and every week in the March quarter, just as they did following its launch in the December quarter." We are fans of Apple's strong product line, diversified geographic revenue, fortress balance sheet (including the aforementioned mountain of cash) and solid dividend yield of 1.6%. Our Target Price has been increased to $206.

And speaking of Mr. Buffett, he offered the following perspective on trade at the Berkshire Hathaway Annual Meeting, aka Woodstock for Capitalists, "The United States and China are going to be the two superpowers of the world, economically and in other ways, for a long, long, long, long time. We have a lot of common interests, and like any two big economic entities, there are times when there will be tensions. But it is a win-win situation when the world trades, and China and the United States are the two big factors in that."

Of course, it was somewhat surprising that during the lengthy Q&A session on Saturday, the Oracle of Omaha was not asked about the returns disparity between Value and Growth, given that he is a firm proponent of the former. This is especially true, given that *Barron's Magazine* ran a cover story a week ago suggesting that Value may soon reassert its historical leadership position. Alas, given that Growth trounced Value last week, we hope the dreaded magazine cover jinx won't hit the style of investing that we have long favored,…

…even as we are buoyed by the fact that Value looks extraordinarily inexpensive relative to Growth,…



…while the valuation metrics associated with our newsletter portfolios compare very well to the market and even most of the Value indexes.

THE PRUDENT SPECULATOR
Newsletter Portfolio Metrics

CURRENT PORTFOLIO AND INDEX VALUATIONS

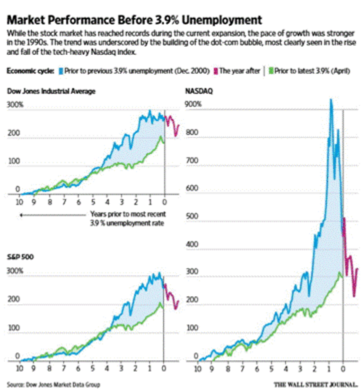
Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	15.4	12.8	1.1	1.9	2.8
Buckingham	15.7	12.8	1.1	2.0	2.7
Milennium	16.0	13.0	1.1	2.0	2.7
PruFolio	15.9	12.9	1.1	2.0	2.7
Russell 3000	22.0	17.6	2.0	3.1	1.9
Russell 3000 Growth	26.3	20.8	2.7	6.3	1.3
Russell 3000 Value	18.6	15.0	1.5	2.0	2.5
Russell 2000	47.2	25.7	1.3	2.4	1.3
Russell 2000 Growth	76.0	33.9	1.7	4.3	0.7
Russell 2000 Value	33.1	20.1	1.0	1.6	2.0
Russell 1000	21.0	17.1	2.1	3.1	1.9
Russell 1000 Growth	25.0	20.2	2.9	6.6	1.3
Russell 1000 Value	18.0	14.7	1.6	2.0	2.5
S&P 500 Index	20.5	16.9	2.1	3.2	2.0
S&P 500 Growth Index	24.1	19.7	3.5	5.8	1.3
S&P 500 Value Index	17.5	14.5	1.5	2.1	2.7
S&P 500 Pure Value Index	15.0	12.0	0.6	1.4	3.3

As of 05.06.18. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

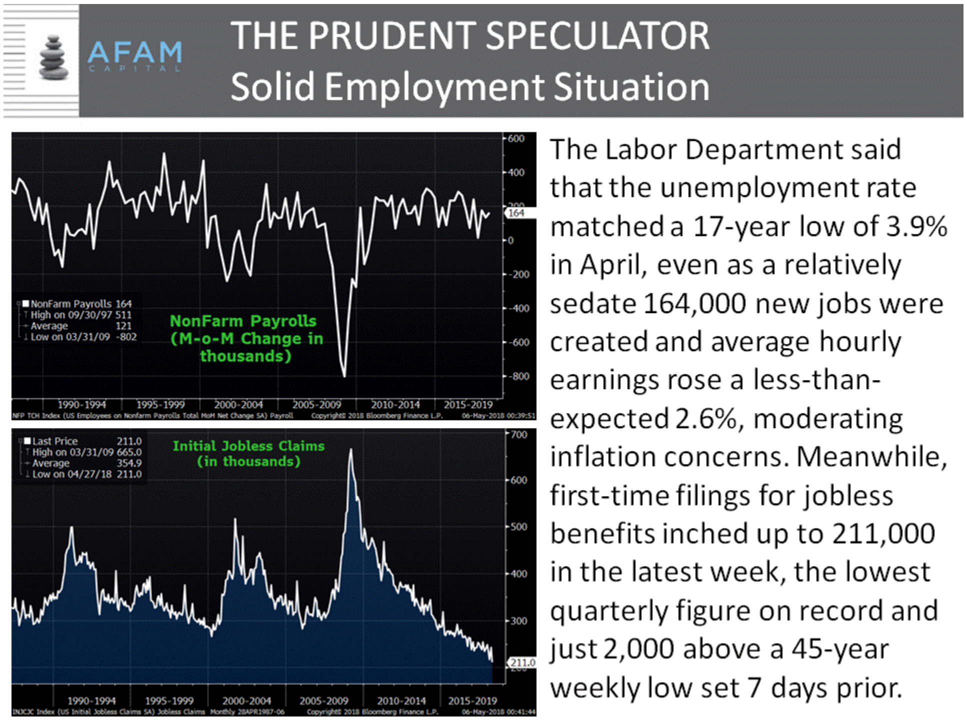
And thinking about the Bursting of the Tech Bubble, Uncle Sam reported on Friday that the unemployment rate dipped to 3.9%, matching a level last seen in 2000 and prompting the financial press to remind folks what happened in the equity markets the last time the jobs picture appeared to be so healthy.

THE PRUDENT SPECULATOR
Time for Value – 3.9% Unemployment

Not surprisingly, *The Wall Street Journal* was quick to remind investors that the last time the unemployment rate was at 3.9% in the year 2000, a big decline ensued for the major market averages. Happily, we don't have to invest in the indexes and we note that Value strategies had a great five years following the bursting of the Tech Bubble in March 2000.



We use the phrase “appeared to be so healthy” as the employment situation report was not all unicorns and rainbows, given that the unemployment rate dropped mainly because many people left the work force, while the number of new non-farm payrolls created of 164,000 actually trailed analyst projections. Still, the jobs numbers of late have been solid,…



…which has some investors worried that the Federal Reserve will move faster in tightening monetary policy. Of course, Jerome Powell & Co. gave no indication that a change in the trajectory of interest rate hikes was imminent when the Federal Open Market Committee met last week, even as the Fed Statement included, “Inflation on a 12-month basis is expected to run near the Committee's symmetric 2 percent objective over the medium term.”

THE PRUDENT SPECULATOR
FOMC Statement: May 2, 2018

Information received since the Federal Open Market Committee met in March indicates that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Recent data suggest that growth of household spending moderated from its strong fourth-quarter pace, while business fixed investment continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

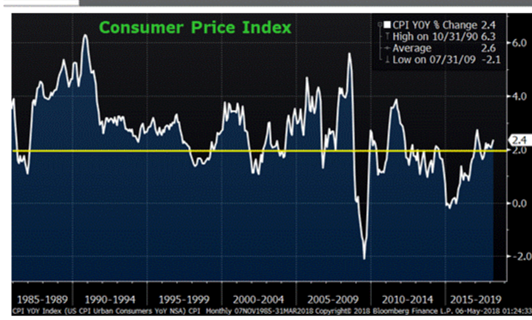
Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to run near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

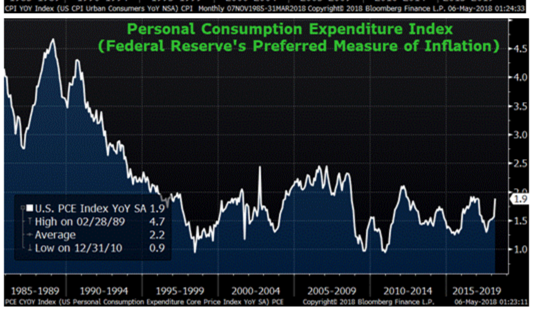
In view of realized and expected labor market conditions and inflation, the Committee decided to maintain the target range for the federal funds rate at 1-1/2 to 1-3/4 percent. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2 percent inflation.

The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.

True, pricing pressures have picked up of late,…

THE PRUDENT SPECULATOR
Inflation Remains Relatively Low





While the Federal Reserve said last week, "On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2%," the latest statistics show that while prices have been rising, the gains remain well contained, with both the Consumer Price Index and the Personal Consumption Expenditure Index still residing at levels below their respective historical averages.

…but market history suggests that equity investors need not fear inflation in the 2% to 3% range, at least if average subsequent-12-month returns are to be believed,…

THE PRUDENT SPECULATOR
Inflation Rates & Next 12 Month Returns

Inflation Rates and Average Equity Returns

Value Stocks

Inflation Rate	< 0%	0% to 1%	1% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 6%	6% to 7%	> 7%
COUNT	136	78	204	186	173	84	52	45	131
Mean NTM TR	**22.7%**	**11.1%**	**15.6%**	**17.9%**	**21.7%**	**5.2%**	**2.4%**	**24.8%**	**24.6%**
Min NTM TR	-71.4%	-47.9%	-45.9%	-49.7%	-66.3%	-54.7%	-55.8%	-6.6%	-27.9%
Max NTM TR	358.4%	84.6%	83.8%	93.8%	149.1%	40.2%	62.2%	75.3%	134.0%
# Neg	46	34	49	41	32	29	25	4	18
# Pos	90	44	155	145	141	55	27	41	113
+/- Ratio	2.0	1.3	3.2	3.5	4.4	1.9	1.1	10.3	6.9

Growth Stocks

Inflation Rate	< 0%	0% to 1%	1% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 6%	6% to 7%	> 7%
COUNT	136	78	204	186	173	84	52	45	131
Mean NTM TR	**19.0%**	**6.7%**	**13.0%**	**13.7%**	**9.9%**	**4.5%**	**4.3%**	**21.8%**	**14.2%**
Min NTM TR	-64.8%	-45.5%	-42.2%	-43.4%	-55.1%	-42.1%	-45.3%	-17.3%	-48.1%
Max NTM TR	221.9%	55.9%	58.6%	58.3%	76.1%	33.0%	56.0%	76.3%	83.8%
# Neg	40	30	36	46	54	29	18	4	35
# Pos	96	48	168	140	119	55	34	41	96
+/- Ratio	2.4	1.6	4.7	3.0	2.2	1.9	1.9	10.3	2.7

Source: AFAM Capital Using Data from Morningstar and Professors Eugene F. Fama and Kenneth R. French

…while those worried that a massive spike in inflation and interest rates could spell doom, as supposedly took place from 1966 to 1982, should take comfort in the actual returns data for equities, especially Value Stocks, during that turbulent period.

THE PRUDENT SPECULATOR
Fear Over Facts - Inflation

Why an Unpleasant Inflation Surprise Could Be Coming

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly for unexpected reasons: it "is sluggish and slow-moving, until it isn't."

A case in point: in 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes," they said.

The effect of an overheating economy was then compounded by policy errors. Fed chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Johnson and then Richard Nixon to keep interest rates low. ***From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.***

Wall Street Journal, February 28, 2018

In yet another example of fear over facts, *The Wall Street Journal* warned of dire consequences should we have another inflation and interest rate scare like 1965-1981. If past is prologue, as Value investors, we hope they are right.

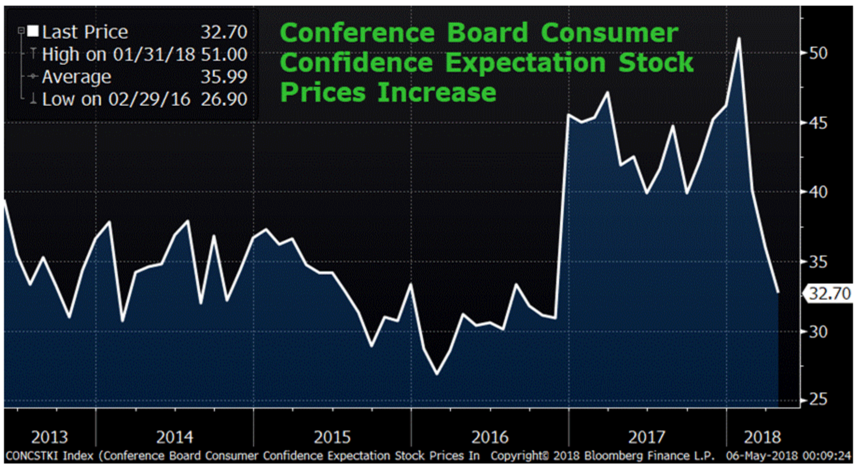
Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%

Source: Morningstar

Certainly, we respect that anything can happen in the near term, and we remain braced for continued downside volatility, but we remain optimistic about the long-term prospects for our broadly diversified portfolios of undervalued stocks. And our optimism is bolstered by the fact that by at least one sentiment gauge investors are as pessimistic today as they have been at any time since the Trump Election,…

THE PRUDENT SPECULATOR
Contrarian Buy Signal - Sentiment

Incredibly, in three months, despite cheaper prices and higher earnings, folks have gone from elevated optimism on the outlook for stocks to the worst pessimism since the time of the 2016 Presidential Election. Hmm!



…which is music to our ears if past is prologue!

THE PRUDENT SPECULATOR
Returns since Trump Election

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since Trump Election (11.8.16) %	Bloomberg Symbol	Index
Stock Indexes					
-2.58	28.11	16.50	35.06	INDU Index	Dow Jones Industrial Average
3.00	29.73	8.97	38.79	CCMP Index	NASDAQ Composite Index
-1.01	21.68	12.04	26.68	RIY Index	Russell 1000 Index
1.10	14.63	21.28	31.94	RTY Index	Russell 2000 Index
-0.85	21.12	12.72	27.07	RAY Index	Russell 3000 Index
-1.06	21.82	11.95	26.53	SPX Index	S&P 500 Index
1.89	30.21	7.07	36.37	RLG Index	Russell 1000 Growth Index
-3.96	13.64	17.33	17.38	RLV Index	Russell 1000 Value Index
2.92	22.14	11.28	38.46	RUO Index	Russell 2000 Growth Index
-0.85	7.82	31.72	25.51	RUJ Index	Russell 2000 Value Index
1.97	29.58	7.38	36.53	RAG Index	Russell 3000 Growth Index
-3.73	13.17	18.38	17.98	RAV Index	Russell 3000 Value Index
2.41	27.43	6.89	33.29	SGX Index	S&P 500 Growth Index
-4.70	15.35	17.39	18.66	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.35	3.57	0.79	-1.06	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.41	3.53	0.75	-1.22	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-1.13	8.17	0.82	7.74	PONAX Equity	Pimco Income Fund-A
0.90	2.39	0.81	2.56	VTABX Equity	Vanguard Ttl Intl Bnd-Adm
-2.09	3.10	0.76	-0.95	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-2.23	5.13	0.73	0.93	PTTRX Equity	Pimco Total Return Fund-Inst
-0.84	7.36	0.63	7.19	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.78	2.02	-0.01	0.46	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-1.13	4.53	0.21	0.65	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.41	4.36	0.63	1.83	DODIX Equity	Dodge & Cox Income
-0.90	3.79	0.51	1.42	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.35	1.89	0.07	1.32	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 5.4.18

Though we understand that the equity markets generally are in the red in 2018, stocks have still enjoyed sizable gains since the 2016 Presidential Election, even as high-flying Growth stocks like Amazon, Netflix and Tesla have been the big winners. Of course, it is fascinating that the two largest bond funds have actually lost value since November 8, 2016, illustrating that there is risk associated with Fixed Income.

To be sure, our enthusiasm for our brand of equity investing is not simply based on historical precedent. We also take heart in the generally terrific batch of Q1 earnings reports that have been coming fast and furious. Indeed, Bloomberg calculates that of the 408 S&P 500 members to have announced first quarter results thus far, a whopping 79.9% have exceeded expectations, compared to just 14.2% that have trailed estimates. Those numbers compare to a Beat/Miss rate of 73.2%/19.8% in Q1 2017.

Finally, as we have been saying in recent weeks, it certainly doesn't hurt that valuations are generally less expensive today than they were at the start of the year, as evidenced by the forward earnings multiple comparisons for a broad selection of TPS companies that announced first quarter results last week.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Prices Down & Earnings Up

While we always would like to see our stocks appreciate in price to reflect better outlooks for future profitability, the consolation prize thus far in 2018 is that valuations generally have become significantly less expensive as earnings estimates have increased markedly.

Stock Valuations: P/E Ratios Then and Now

Company	Symbol	Year End P/E	Year End Price	NTM EPS Est as of 12.29.17	Current P/E	Current Price	NTM EPS Est as of 5.4.18	YTD Price Change	NTM EPS Change
Eaton Corp PLC	ETN	15.1	$79.01	$5.23	14.1	$74.87	$5.33	-5%	2%
Aetna	AET	17.3	$180.39	$10.41	15.3	$172.26	$11.24	-5%	8%
Tapestry	TPR	16.8	$44.23	$2.63	16.5	$46.16	$2.80	4%	6%
Merck & Co	MRK	14.0	$56.27	$4.01	13.5	$57.75	$4.28	3%	7%
Archer-Daniels-Midland	ADM	14.0	$40.08	$2.86	13.5	$43.86	$3.24	9%	13%
Cummins	CMI	14.5	$176.64	$12.21	10.4	$144.55	$13.92	-18%	14%
Seagate Technology PLC	STX	10.2	$41.84	$4.12	9.6	$55.68	$5.79	33%	41%
Juniper Networks	JNPR	12.9	$28.50	$2.22	13.2	$25.66	$1.94	-10%	-12%
Apple	AAPL	14.4	$169.23	$11.72	14.7	$183.83	$12.49	9%	7%
Allstate	ALL	13.6	$104.71	$7.72	11.2	$94.52	$8.42	-10%	9%
HollyFrontier	HFC	16.6	$51.22	$3.09	13.9	$66.05	$4.74	29%	53%
CVS Health	CVS	11.2	$72.50	$6.48	9.2	$63.10	$6.84	-13%	6%
MetLife	MET	10.3	$50.56	$4.89	9.1	$46.23	$5.09	-9%	4%
Prudential Financial	PRU	9.6	$114.98	$12.02	8.2	$100.66	$12.35	-12%	3%
MDC Holdings	MDC	12.8	$31.88	$2.50	9.8	$32.31	$3.30	1%	32%
Cardinal Health	CAH	11.2	$61.27	$5.46	10.6	$53.01	$5.02	-13%	-8%
Fluor Corp	FLR	19.9	$51.65	$2.59	15.3	$45.76	$3.00	-11%	16%
	Source: AFAM Capital using data from Bloomberg						Averages:	-1%	12%

Stock Updates

Chris Quigley and Jason Clark provide updates on 9 of our recommendations out with quarterly results last week…

Hard disk drive maker **Seagate Technology PLC** (STX – $55.68) earned $1.46 per share in fiscal Q3 2018 (vs. $1.33 est.). STX had sales of $2.8 billion, versus the analyst consensus of $2.75 billion. Shares tumbled more than 6%, however, after the company reported Q4 guidance that was below expectations. For next quarter, Seagate said it expects flat revenue ($2.8 billion vs. $2.62 billion est.) and GAAP margins of 30.2% (vs. 30.8% non-GAAP and 30.3% GAAP).

CEO Dave Mosely said, "HDD exabyte shipments for the March quarter were 87.4 exabytes, up 34% year over year. The average capacity per drive across the HDD portfolio was a record 2.4 terabytes per drive, up 32% year over year. And the average selling price per unit was $70.50, up 6% year over year. Cash flow from operations for the quarter was $558 million, up 31% year over year. And free cash flow was $489 million, up 48% year over year. Achieving year-over-year revenue and profitability growth and significant cash flow generation in the March quarter reflects Seagate's strong business model execution. I am pleased with the traction we have gained with our mass storage solutions across the enterprise and edge markets and with the competitiveness of our entire HDD portfolio that aligns with trending data growth opportunities."

CFO Dave Morton added, "As a global technology company, Seagate has decades of experience in managing complex global supply chains and technology manufacturing operations in nearly every region. We work with technology customers, vendors and suppliers throughout the world. In the area of tax and trade, the U.S. and China have recently announced potential trade actions that could increase tariffs on some products imported into the U.S. Given the fluid nature of the issue, it is too speculative to determine any impact or changes for Seagate's operations. However, we continue to monitor the situation. Overall, our operational and financial performance in the March quarter reflects solid earnings power and financial leverage within our business model. Looking ahead, we will continue to align our go-to-market operations and product portfolio advancements for growth in the existing mass storage markets. Over the long term, we believe there will be additional growth opportunities with new markets and customers that will leverage our cost-efficient and reliable storage technologies."

As we noted last quarter, an ongoing concern of ours has been that STX was getting left behind in the SSD (NAND) drive race by rival Western Digital. Those worries largely have been allayed, as the company began its previously announced long-term NAND supply deal with Toshiba Memory. Seagate said it expects to use the agreement to, "invest in developing a broad-based silicon product portfolio in the SAS, SSD, PCIe, NVMe, consumer, and gaming markets for significant revenue growth and expanding margin contributions." While we took some of our Seagate money off of the table recently, we still like the company's strong cash flow and solid balance sheet. We believe that STX's solid dividend yield of 4.5% and attractive valuation, including a price-to-forward earnings ratio of 9.6, are very good reasons to continue to hold our remaining shares. We have nudged up our Target Price for STX to $67.

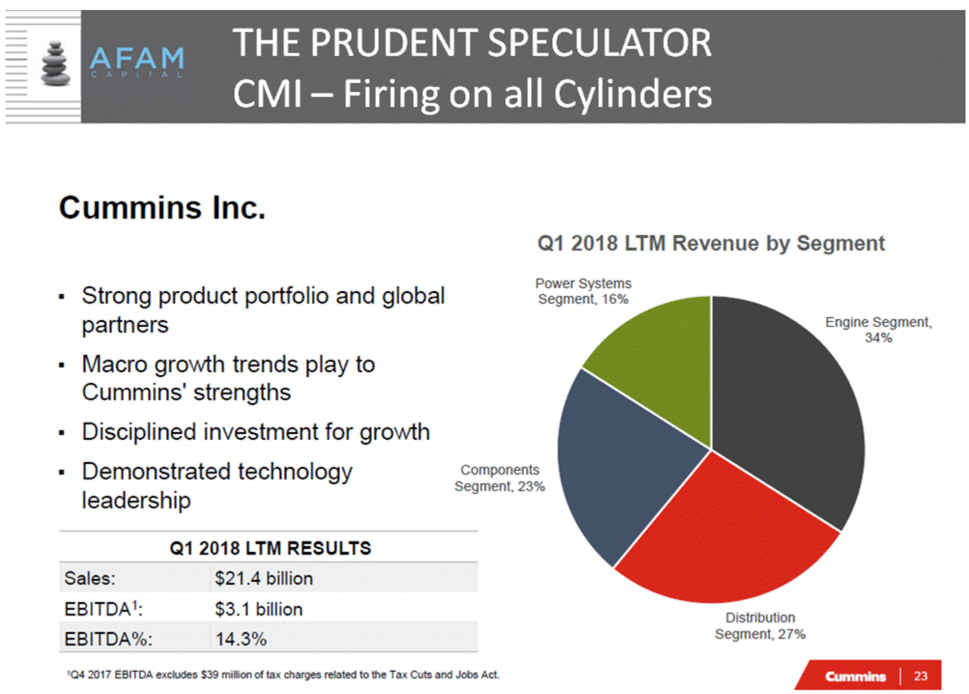
Biopharma firm **Gilead Sciences** (GILD – $65.42) reported Q1 2018 results last week that trailed analyst estimates. Adjusted EPS for the quarter came in at $1.48, versus consensus estimates of $1.66. Revenue for the period came in at $5.09 billion, while investors were looking for $5.40 billion. The miss was primarily driven by weaker than expected sales of GILD's hepatitis C (HCV) therapy, which has encountered substantial pressure from AbbVie's competing therapy. We note that AbbVie reported earnings two weeks ago, and its hepatitis C sales exceeded analyst estimates by 45%.

Gilead CEO John Milligan said, "We continued to see strong growth in our HIV business, driven by broad acceptance and uptake of our Descovy-based regimens. We are confident that this franchise will remain a key growth driver for the company moving forward. As I look ahead to the remainder of 2018, we will continue to advance scientific innovation, including progressing our robust pipeline, which has the potential to transform the treatment of NASH, inflammatory diseases, and certain cancers. In addition, we will look for business development opportunities that add to our pipeline and capabilities across our therapeutic areas, diversify our portfolio, and increase future opportunities for growth. For example, earlier in the quarter, we announced an agreement with Sangamo on gene editing to create next-generation cellular therapies. And just yesterday, we announced another with Verily to better understand the immune system of patients in our clinical studies with filgotinib. I'm confident that our innovation and hard work will deliver on our goals developing new treatments for people living with some of the world's most serious diseases."

GILD reaffirmed 2018 guidance of net product sales of $20 billion to $21 billion. While the tax rate window between 21% and 23% was previously announced as a result of tax reform. Pertaining to the balance sheet, GILD ended the quarter with $32.1 billion of cash. The company also repaid a $4.5 billion term loan (related to the Kite Pharma acquisition), paid cash dividends of $753 million and repurchased 13 million GILD shares for $1 billion. We continue to believe that GILD offers attractive long-term upside. While domestic HCV still has stiff headwinds ahead, international HCV, HIV, the Kite acquisition, large cash reserves and a growing pipeline provide the company opportunities for growth. GILD trades for 10.4 times estimated NTM earnings and yields 3.5%. Still, our Target Price has been cut to $120.

Shares of **Cummins** (CMI – $144.55) fell more than 10% last week despite the industrial concern reporting better-than-expected Q1 results and raising its full-year 2018 outlook. Quarterly revenue of $5.57 billion outpaced consensus analyst estimates of $5.19 billion and adjusted EPS for the period of $3.30 was more than 12% better than projections.

Investors seemed to negatively react to the disclosure that gross margins declined to 21.5% from 24.2% year-over-year due to a $187 million charge related to issues with after-treatment components and certain on-highway products produced during 2010 to 2015 in North America. There is no impact on current products or market share. Additionally, CMI shares felt pressure during the week from a few analyst downgrades, concerned that earnings might be peaking.



With the global economy continuing to expand, we do not see Cummins' results at a peak. Despite the charge in Q1, CMI's results were strong. "Improving demand in a number of the company's core markets, combined with our strong global market share and the success of new products aimed at lowering emissions, resulted in sales growth of 21% in the first quarter," said CEO Tom Linebarger. "Cummins delivered solid operating performance in the first quarter led by strong incremental margins in the Power Systems segment. As a result of rising demand and continued benefits from cost reduction initiatives, we have raised our full year outlook for sales and EBITDA." Based on the current forecast, Cummins expects full year 2018 revenues to be up 10% to 14%, compared to prior guidance of up 4% to 8%.

Overall, we are pleased to see strong demand from North America and the likes of China and India, with the latter two continuing to strengthen our belief that Cummins will increasingly benefit from its international exposure (especially from long-term opportunity in emerging economies), with its leading-edge technology in truck engines helping it gain market share. Consensus analyst estimates peg CMI's full-year adjusted EPS at $13.33, with $14.09 the current projection for 2019. CMI shares trade at 10.4 times NTM adjusted earnings expectations and carry a dividend yield of 3.0%. Our Target Price has been hiked to $199.

Shares of **Cardinal Health** (CAH - $53.01) were whacked last week by more than 19% after the health care distributor reported a tough quarter and lowered its full-year guidance, largely driven by weak results in its Cordis medical device business. For fiscal Q3, CAH earned $1.39 per share, versus consensus estimates of $1.51. Despite the weak bottom-line results, CAH's revenue for the period of $33.63 billion was slightly better than expected.

CEO Mike Kaufmann explained, "Our non-GAAP operating earnings came in largely as expected this quarter. However, our non-GAAP EPS was adversely affected by a significant negative change in our effective tax rate primarily associated with our Cordis business. Our team is moving aggressively to address our operational and supply chain issues at Cordis. Under the leadership of our new Medical Segment CEO, Jon Giacomin, we are implementing a series of initiatives to improve those operations and drive greater efficiencies. While these initiatives will take some time, we remain confident in the potential of this business and the value it provides to cardiovascular patients…We have an exceptional portfolio of assets, a tremendously talented and dedicated organization, and a critical position in the delivery of global healthcare. We look forward to building on this incredibly strong foundation to drive future performance and increase value for our shareholders."

Cardinal revised its outlook for fiscal 2018 adjusted EPS to a range of $4.85 to $4.95 from $5.25 to $5.50, which reflects the company's updated view on the performance of Cordis and its negative effect on the tax rate. Despite the near-term setback, we remain constructive on CAH and believe it remains in strong long-term position within the U.S. pharma market. While fiscal Q3 results, the talk from Washington about health care pricing and worries about competitive threats will keep the level of uncertainty on Cardinal elevated, we think the selloff was overdone. We believe that CAH will benefit in the long-term from demographic trends in the U.S. as the population continues to age and requires greater health care usage. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 3.5%), buy back stock and invest in the business via research & development and mergers & acquisitions. CAH shares trade for less than 10.6 times NTM reduced earnings expectations. We have cut our Target Price to $89, but we note that the stock bounced back by more than 4% on Friday.

Despite delivering Q1 top and bottom-line results that beat consensus analyst expectations and turning in solid North American results for its Coach brand, shares of **Tapestry** (TPR - $46.16) fell more than 15% last week as declines in Kate Spade same store sales and execution issues, including production delays and lower sell-through of key carryover styles at Stuart Weitzman, left investors feeling soured. For its fiscal Q3 2018, TPR reported adjusted EPS of $0.54 on revenue of $1.32 billion (versus expectations of $0.50 and $1.31 billion).

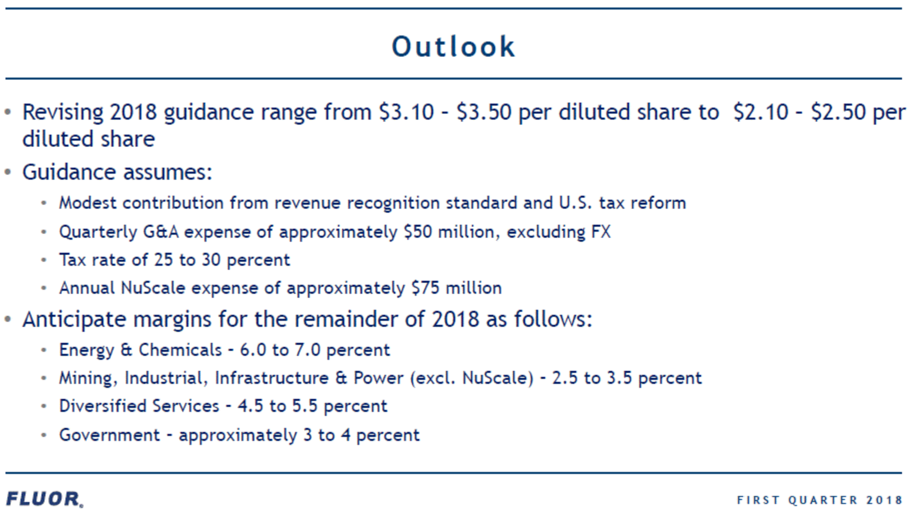
CEO Victor Luis commented, “Our solid third quarter performance was consistent with our expectations, as we achieved double-digit increases in sales and earnings per share. Results were driven by continued growth at Coach, where comparable store sales rose, led by outperformance in North America, and reflected our strong offering, including the successful global relaunch of Signature in retail. We leveraged these sales gains, tightly controlling costs, and delivered operating income growth ahead of the top line increase.”

Looking at the other business, Mr. Luis said, “Kate Spade contributed to our overall performance, as we made continued progress on our integration efforts including the realization of synergies and the execution of strategic initiatives. Most importantly, we were delighted to announce the appointment of Anna Bakst as CEO and Brand President, Kate Spade who officially joined us in late March. Together with Creative Director Nicola Glass, we now have the leadership team in place to drive the brand forward globally…At Stuart Weitzman, results were negatively impacted by execution issues including production delays and lower sell-through of key carryover styles, which pressured sales and margins. While we believe that some of these issues will continue through the Fall/Winter season, we remain confident in our long-term strategic and creative direction under the leadership of newly appointed CEO & Brand President, Eraldo Poletto and Creative Director, Giovanni Morelli.”

Mr. Luis concluded, “With strong and seasoned brand teams in place, Tapestry is well positioned to continue its journey as a global house of brands and to focus on opportunities to drive long-term and sustainable growth.” The company continues to expect revenue for fiscal 2018 to increase about 30% versus fiscal 2017, rising to $5.8 to $5.9 billion, with low-single-digit organic growth and the acquisition of Kate Spade adding over $1.2 billion to the top line. In addition, Tapestry is now projecting operating income growth of at least 22% versus fiscal 2017 driven by mid-single-digit organic growth, the acquisition of Kate Spade and estimated synergies of approximately $45 million. The full year fiscal 2018 tax rate is now projected to be between 18% and 19%, while the company projects EPS to come in between $2.57 and $2.60, an increase of about 19% to 21% for the year.

While the week’s selloff still left TPR shares up on the year, we think it also provided a good entry point for those that don’t have a full position. We believe that Tapestry has a number of positive drivers that will aid forward performance, including solid U.S. results and potential in key international markets, channel mix, synergies with Kate Spade, diminishing footwear drag, cost saving initiatives, benefits from foreign currency exchange and a lower effective tax rate. TPR shares carry a 2.9% dividend yield, and our Target Price now stands at $57 after a slight trim.

Global construction and engineering firm **Fluor** (FLR – $45.76) reported a supremely disappointing Q1 that included a reduced full year earnings outlook. Investors responded to the news by punishing the stock to the tune of a 22.5% drop on Friday. For Q1, Fluor posted adjusted earnings per share of $0.56, versus an estimate of $0.76, on revenue of $4.82 billion, which was better that the consensus estimate of $4.69 billion. The messy and disappointing quarter was impacted by an additional cost overrun on a gas-fired power project (which reduced EPS by $0.69), currency losses tied to the British pound and Mexican peso ($0.17) and additional costs incurred on its recent disaster recovery work in Puerto Rico ($0.20).



Additionally, Fluor reduced 2018 full-year EPS guidance to a range of $2.10 to $2.50, versus previous guidance of $3.10 to $3.50, and EPS of $1.63 in 2017. The company expects stronger demand to begin from energy, mining and infrastructure end markets and it estimates annual EPS benefits of $0.75 to $0.95 versus 2017 from both U.S. tax reform and new revenue recognition standards. Management also pointed out that after quarter-end, a Fluor-led joint venture was selected as the EPC contractor for a proposed LNG export terminal in Western Canada planned by Shell-led LNG Canada.

“Results for the quarter did not meet our expectations as a result of continued challenges on a gas-fired power project,” conceded FLR CEO David Seaton. “Going forward, our primary focus will be on markets where we see opportunities to fully deploy our integrated solutions model to deliver the capital efficiency that our clients demand. This includes our recent announcement on the LNG Canada project, which is one of many opportunities we see in the second half of 2018.”

While we are more than a bit frustrated with FLR, and our patience is growing thin, we do believe there is reason to be optimistic about its industry (Fluor just has to execute). We maintain our positive view for a worldwide capital spending up-cycle in the space, supported by accelerated global economic growth, firmer crude oil prices and incentives for E&C customers from U.S. tax and regulatory reforms. Lower U.S. corporate tax rates, regulatory reforms and repatriation incentives should together boost after-tax returns, reduce risks and free up capital to advance a broad range of discretionary projects. Further, it is not impossible that we could still see some sort of infrastructure spending bill come out of Washington before the November elections. That said, we are compelled to give our Target Price a significant haircut to $62.

Despite what we saw as a solid quarter, shares of **Prudential Financial** (PRU - $100.66) fell by 6.5% last week as the giant insurer was reporting Q1 financial results. PRU said it had adjusted EPS of $3.08, versus consensus analyst expectations of $2.98, but investors seemingly remain concerned about the competitive dynamics of the life insurance biz and worried that reserve charges by players in the industry could impact future results (because of products like long-term care).

We think fears are overblown as CEO John Strangfeld commented on the quarter, “We had a good start to the year. Earnings were solid and the underlying momentum across our businesses remained strong. Adjusted operating earnings of $3.05, which excludes a $0.03 benefit from market-driven and discrete items, exceeds the $2.76 we reported in the prior year quarter. Annualized return on equity on the same basis was very good, in the mid-13% range, which is above our near to intermediate term target of 12% to 13%...Earnings are benefiting from solid core growth in our asset-based businesses, including Investment Management, Retirement and Individual Annuities. We also saw improved margins in our Group Insurance business and steady underlying results in our international operations. In addition, tax reform is an incremental positive to results and we experienced lower than normal corporate expenses in the quarter, which we know will vary.”

Mr. Strangfeld continued, “At a high level, we continue to see solid momentum. While first quarter sales inflows were influenced by the timing of transactions and other episodic factors, looking through those we are pleased with the overall production trends in our operations. In our domestic businesses, we're seeing increasing sales momentum in our Individual Annuities business, with sales up 20% over the prior year and 7% sequentially. Likewise, we're seeing strong sales in our Group Insurance business, which reported growth of 27% over the prior year. Our international businesses continue to show good overall momentum. Although sales were down from the prior year, this is mainly due to challenging comparisons, as the first quarter of 2017 benefited from a sales surge in Japan ahead of our repricing of yen-based products. Looking through that impact, sales were solid, led by good Life Planner and Life Consultant productivity, and we continue to see particularly strong sales results in our U.S. dollar products in Japan.”

Needless to say, we think last week’s selloff was in error as we generally are pleased with PRU’s overall execution over the last few years. We believe the domestic businesses are positioned to benefit from near- and long-term market and business-specific trends, and potentially from further deregulation. We also like the potential of its sales of pension de-risking products. Further, we believe the International business can continue to deliver earnings growth and mid-single digit ROEs despite low interest rates and challenging demographics in Japan. PRU trades for just 8.2 times NTM estimated earnings and yields 3.6%. Our Target Price now stands at $141.

HollyFrontier (HFC – $66.05) reported another strong quarter last week. The positive news, coupled with the announcement that rival Marathon Petroleum was buying Andeavor (drawing in investors hoping for further M&A activity in the space), pushed the refiner’s shares up more than 9%. We note that while on one hand we could be upset that we trimmed our HFC position back in mid-April, on the other hand we are glad that we still have a full position size in our managed accounts.

For Q1, HFC said it had adjusted earnings per share of $0.77, versus consensus analyst estimates of $0.38. Revenue for the period came in at $4.13 billion, more than 26% better than what investors were expecting. Good results in Lubricants and HEP were surpassed by a strong performance in refining, which contributed $309 million in operating income, compared with a loss of $94 million last year, thanks to a good macro environment and higher throughput volumes. Realized gross margins improved to $12.83 per barrel from $7.54 last year as a result of widening heavy and light crude spreads. Volumes grew 12% to 452,000 barrels per day year over year. CEO George Damiris commented, “HollyFrontier's strong financial results reflect our ability to capitalize on the refining margins and crude spreads available during the first quarter. To date, crude spreads have been consistent, and we are optimistic about refining and lubricant margins going into the summer.”

Although the company has a sizable amount of long-term debt ($2.4 billion) at last count, we note that almost $1.5 billion of that is HEP debt (Holly Energy Partners, L.P.) which is nonrecourse to HollyFrontier. As such, we like that HFC has a decent balance sheet and has kept operating costs under control. With continued opportunity for appealing industry fundamentals as we head into the heavy domestic driving season and the company executing strongly, we think HFC shares can generate additional upside. That said, given that the stock has jumped in price by more than 15% since our mid-April trim, we are keeping a close eye and won’t hesitate to exit our remaining position. HFC shares currently trade at 13.9 times NTM expected adjusted EPS and yield 2.0%. Our Target Price has been hiked to $71.

Despite investors shunning shares of homebuilder **MDC Holdings** (MDC – $32.31) over the last few months on fears of rising interest rates (MDC shares were down 13% from 1.31.2018 to 4.30.2018), MDC turned in a splendid Q1, and the stock reacted positively, ending the week up more than 8%. MDC posted adjusted EPS of $0.68, 30% better than consensus estimates of $0.52. Revenue for the three month period was $626.7 million (versus expectations of $588.7 million). We were happy to see gross margins expand and for business backlog to hit $1.88 billion (18% higher than at the end of Q1 2017).

CEO Larry A. Mizel stated, "We are pleased with our 2018 first quarter results, highlighted by a 74% year-over-year increase in net income. Our quarter benefited from solid top-line growth, a significant expansion of our gross margin percentage and a much lower effective tax rate. At the same time, our 2018 spring selling season kicked off with our strongest first quarter net order absorption rate since 2006. We believe that this robust sales activity was driven by strong consumer demand and limited housing supply, combined with our increased offering of more affordable homes, which more than offset any negative impact from rising mortgage rates."

Mr. Mizel continued, "We approved over 4,000 lots for purchase in the 2018 first quarter, with almost 50% of those lots designated for the Season collection, which is the centerpiece of our efforts to drive affordability. Even at this lower price point, we continue to offer the benefits of a build-to-order model, where our customers can personalize their homes to match their own unique preferences. We believe that this approach provides us with a competitive advantage as we look to continue to drive our growth through this important homebuyer segment."

He concluded, "With our ending backlog value up 18% from a year ago, we enter our second quarter with the opportunity for more significant year-over-year growth in revenues for the balance of the year, which could drive enhanced operating leverage to complement our already significantly expanded gross margin from home sales. With that in mind, we are optimistic about our prospects for the continued growth of the company's core pretax operating margin and return on equity in 2018."

We continue to like MDC and the fact that shares trade at less than 10 times NTM adjusted EPS expectations and offer investors a 3.7% dividend yield. While interest rates will most likely move higher in the coming months, they remain at rate levels that are very low on the historical spectrum. Additionally, the U.S. economy continues to show improvement, with a solid outlook for employment, consumer confidence and wage inflation for its prospective customers. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet, with ample liquidity that the company continues to smartly tap as it acquires land in attractive markets. Additionally, we like MDC's focus on first time buyers (many Millennials) with its Season collection of homes. Our Target Price for MDC shares has been hammered higher to $51.