EXECUTIVE SUMMARY

Secret to Success in Stocks is Not to Get Scared Out of Them - Greek Debt Crisis
Debunking Myths - Age of the Bull Market
2011 Perspective - An Awful August Seven Years Ago
2014-2016 Swoon - A Bear Market of Sorts
Market of Stocks - Undervalued Names with Lagging Share Prices but Improved Earnings Outlooks
MoneyShow San Francisco Picks - Research Team Selects 30 of our Holdings
Powell Speaks - Upbeat Comments from the Fed Chair
Earnings News - Updates on LOW, FL, KSS, MDT, TGT & WSM

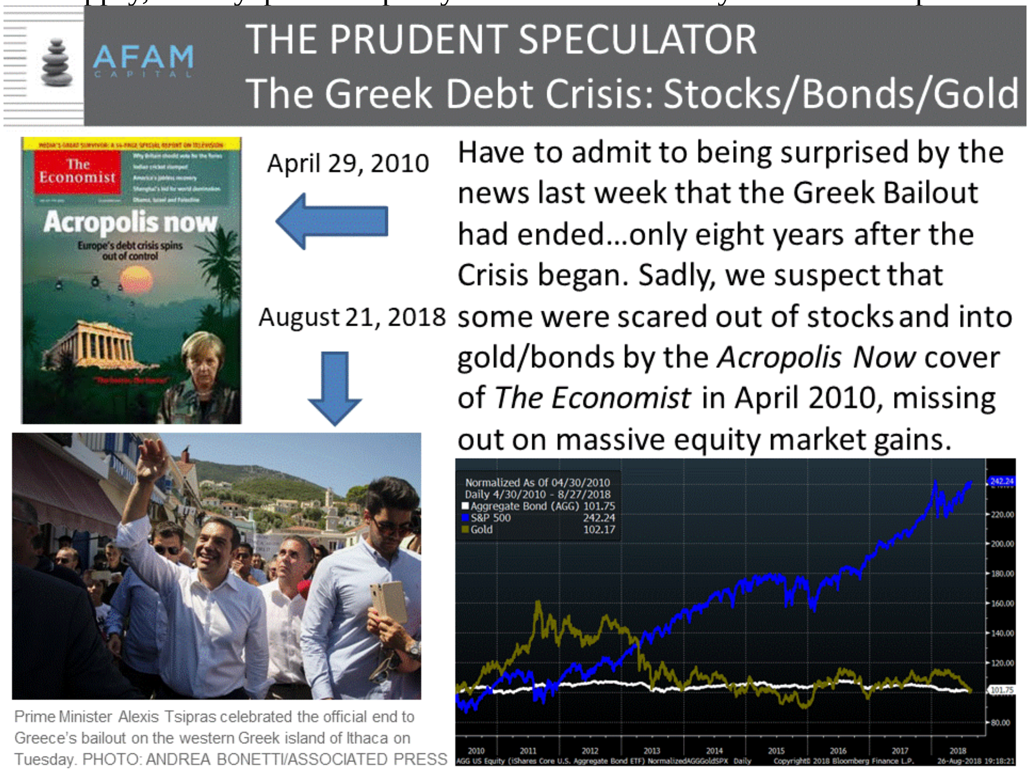
Market Review

Your Editor has just returned from the *MoneyShow San Francisco* and nearly five hours of presentations and interviews. While the voice is a little croaky, it is always a pleasure to spread the gospel of Al Frank, with many of the attendees speaking fondly of their memories of our founder.

Incredibly, it has now been more than sixteen years since Al went to stock market heaven (his words), and while much has changed on the technological front since Al's passing, as we have access to far more financial information and we have automated quite a bit of number crunching that had previously been done manually, the basic premise of *The Prudent Speculator* remains intact. Indeed, we firmly believe that buying and patiently holding/harvesting a broadly diversified portfolio of undervalued stocks, most of which also pay a dividend, for their three-to-five-year (or longer) appreciation potential is the key to helping equity market participants achieve their long-term investment objectives.

To be sure, it is much easier to convince folks of the merits of our approach when the major market averages are sitting at or close to record highs, as is the case today, but we realize that it is sometimes tough to trust that the secret to success in stocks is not to get scared out of them.

Happily, history provides plenty of events that vividly illustrate the point.



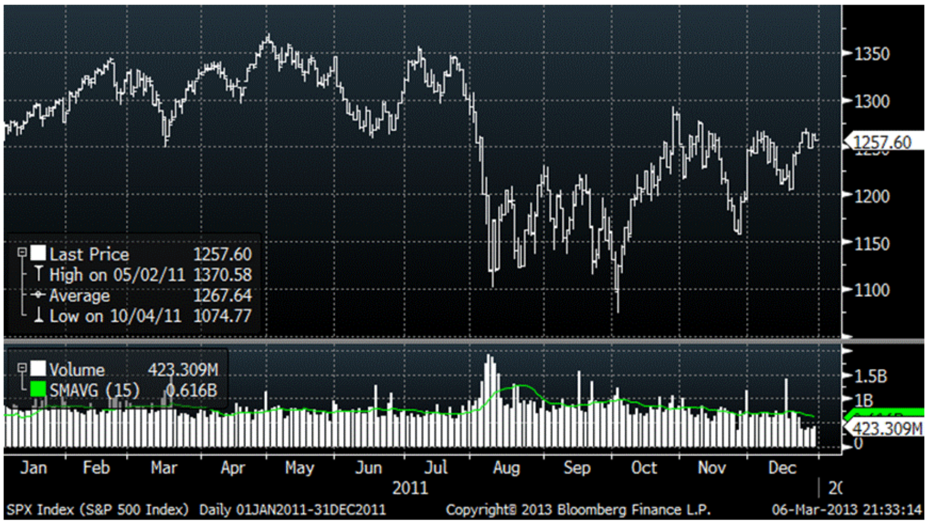
Of course, our long-term optimism does not mean that every scary event, disconcerting data point or market plunge simply should be ignored. Indeed, we are always paying attention to the latest developments, but we will only act when we truly think it appropriate. Al Frank called this eternal vigilance with benign neglect and we very much like the admonition offered by Vannevar Bush, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation."

We believe that our *MoneyShow* presentations and these missives are filled with reason and evaluation, even as we always are aware that anything can happen in the equity markets. Clearly, there are plenty of things to worry about these days, what with another mass shooting over the weekend, heightened political drama in Washington, global trade disputes and the fallout from the collapse of the Turkish Lira, so we do our best to try to debunk myths and falsehoods that could compel long-term-oriented folks to abandon their long-term investment plan.

While not a falsehood, per se, as it is factually correct in that the official arbiters (who we might argue do not actually invest their own money in stocks) only look at closing levels of the S&P 500, we read in *The Wall Street Journal* last week this headline, "U.S. Stocks Poised to Enter Longest-Ever Bull Market." Certainly, the *WSJ* is not incorrect in saying that it has been more than 3,450 days since the S&P 500 hit its low of 666 on March 9, 2009, but we have long challenged (we think successfully) the view that the current Bull Market began more than nine years ago,…

THE PRUDENT SPECULATOR
Bull Market Began 10.04.11, Not 03.09.09

S&P 500: With a Bear Market defined as a 20% decline, a 21.6% peak-to-trough drop on an intraday basis took place in 2011...



…with our own experience and that of many indexes showing that the average stock had a 20%+ skid (i.e. a Bear Market) in 2011.

THE PRUDENT SPECULATOR
Market of Stocks — 2011 Bear Market

2011 Bear Market

Start	End	Perf	Instrument
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway
4/29/2011	10/3/2011	-22.2%	Buckingham Portfolio
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index

2011 Bear Market

Start	End	Perf	Instrument
7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
4/29/2011	10/3/2011	-19.4%	S&P 500 Index
4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
8/4/2009	12/27/2011	-37.6%	Shanghai Stock Exchange
4/29/2011	10/3/2011	-20.9%	Wilshire 5000

And for those who somehow think 2011 was a walk in the park, here is the opening paragraph of *The Prudent Speculator's* September 2011 *Editor's Note…*

You know equities had a rough go of it during August when our benchmark Russell 3000 index had to rally more than 9% over the final seven trading sessions just to pare the loss for the full month to 6%. The trying period included four separate days during which stocks dropped by more than 4%, while the price of gold skyrocketed, consumer sentiment plummeted and a widely watched gauge of manufacturing activity (the Philadelphia Fed Survey) sank to levels generally seen only in the throes of recession. Toss in worries about slowing growth in the Eurozone and China, as well as a rare 5.9 earthquake centered in Virginia and a major hurricane heading straight for major Northeastern cities, and it is somewhat surprising that the markets held up as well as they did.

Obviously, stocks managed to overcome the 2011 turmoil, some of which took place during the *MoneyShow San Francisco* that year, but there was again a major downturn, a Bear Market of sorts, that began in 2014 or 2015 and ended in February 2016.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Market of Stocks – 2014-2016 Swoon

2014-2016 Swoon

Start	End	Perf	Instrument
12/18/2014	1/25/2016	-18.4%	Berkshire Hathaway
8/29/2014	2/11/2016	-21.2%	Buckingham Portfolio
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index

2014-2016 Swoon

Start	End	Perf	Instrument
11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
6/23/2014	1/20/2016	-47.3%	S&P 500 Energy
7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
5/21/2015	2/11/2016	-14.2%	S&P 500 Index
2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange
6/23/2015	2/11/2016	-17.1%	Wilshire 5000

We respect that even though an index of 2000 U.S. stocks (i.e. the Russell 2000) lost 26.4% from June 23, 2015 to February 11, 2016, few will buy the view that the 2014-2016 Swoon was a Bear (Buckingham Portfolio tumbled 21.2% from peak to trough), but the advance off the March 2009 Financial Crisis lows has hardly been without drama.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Keep Calm and Carry On

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

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	155%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	120%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	140%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	100%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	102%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	74%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%		56%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		44%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		42%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		39%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		37%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%			43%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%			39%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%			53%
Brexit	6/23/2016	2,113.32	2%	7%	15%			36%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			34%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**76%**	**70%**

Source: AFAM Capital using data from Bloomberg. As of 8.24.18

And, despite what the prominent indexes may be doing, we never forget that it is a market of stocks and not simply a stock market. For example, despite the solid returns this year, there are more than a few names that have not had their day in the sun. In fact, we put together for the *MoneyShow* a listing of our recommendations that have seen sub-par performance thus far in 2018,…

THE PRUDENT SPECULATOR
Prices Down & Earnings Up

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 8.22.18	YTD Price Change	NTM EPS Change
Allstate	ALL	13.0	$104.71	$8.08	11.2	$99.51	$8.89	-5%	10%
Citigroup	C	11.1	$74.41	$6.69	10.2	$71.12	$6.98	-4%	4%
Caterpillar	CAT	18.7	$157.58	$8.44	11.6	$139.63	$12.07	-11%	43%
Comcast	CMCSA	18.6	$40.05	$2.15	13.7	$35.48	$2.60	-11%	21%
Cummins Inc	CMI	14.1	$176.64	$12.53	9.9	$144.81	$14.68	-18%	17%
Capital One Financial	COF	10.7	$99.58	$9.26	9.2	$100.45	$10.86	1%	17%
CVS Health	CVS	10.7	$72.50	$6.76	10.4	$73.91	$7.13	2%	5%
Deere & Co	DE	17.3	$156.51	$9.06	12.8	$142.61	$11.14	-9%	23%
Walt Disney	DIS	16.5	$107.51	$6.51	15.1	$111.94	$7.42	4%	14%
Eaton Corp Plc	ETN	14.8	$79.01	$5.35	14.6	$81.49	$5.58	3%	4%
Fedex Corp	FDX	16.1	$249.54	$15.48	14.2	$246.94	$17.37	-1%	12%
Fifth Third Bancorp	FITB	13.6	$30.34	$2.23	11.7	$29.75	$2.55	-2%	14%
Goldman Sachs Group	GS	11.4	$254.76	$22.25	9.8	$239.34	$24.50	-6%	10%
Intel	INTC	13.7	$46.16	$3.37	11.3	$47.05	$4.17	2%	24%
International Paper	IP	14.8	$57.94	$3.92	9.2	$51.66	$5.60	-11%	43%
Johnson & Johnson	JNJ	17.6	$139.72	$7.94	16.0	$134.61	$8.41	-4%	6%
Lam Research	LRCX	12.2	$184.07	$15.05	11.1	$173.08	$15.62	-6%	4%
Manpowergroup	MAN	15.6	$126.11	$8.10	10.3	$90.23	$8.78	-28%	8%
MDC Holdings	MDC	12.5	$31.88	$2.56	8.8	$33.09	$3.75	4%	47%
Metlife	MET	10.0	$50.56	$5.04	8.8	$46.41	$5.27	-8%	5%
Marvell Technology	MRVL	16.1	$21.47	$1.33	14.8	$20.44	$1.39	-5%	4%
Oracle	ORCL	15.0	$47.28	$3.16	14.6	$48.80	$3.35	3%	6%
PNC Financial Services	PNC	14.1	$144.29	$10.22	13.0	$144.55	$11.15	0%	9%
Royal Caribbean Cruises	RCL	13.3	$119.28	$8.96	12.8	$118.33	$9.21	-1%	3%
Royal Dutch Shell	RDS/A	14.8	$66.71	$4.51	10.9	$65.03	$5.97	-3%	32%
Synchrony Financial	SYF	10.8	$38.61	$3.59	8.6	$31.70	$3.68	-18%	3%
Trinity Industries	TRN	28.0	$37.46	$1.34	21.0	$36.66	$1.75	-2%	31%
Verizon	VZ	13.6	$52.93	$3.89	11.7	$54.14	$4.64	2%	19%
Walgreens Boots	WBA	12.1	$72.62	$6.01	11.1	$69.64	$6.30	-4%	5%
Exxon Mobil	XOM	20.2	$83.64	$4.15	14.8	$79.96	$5.39	-4%	30%
As of 8.22.18. Source: AFAM Capital using data from Bloomberg							Averages:	-5%	16%

While we always would like to see our stocks appreciate handsomely 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.

…even as their earnings outlooks have shown considerable improvement since the start of the year. Certainly, these are stocks that we think readers might want to consider for purchase today, but Jason, Chris and I also put together a listing of 30 of our current favorites as incentive for *MoneyShow* attendees to take a look at *The Prudent Speculator*.

THE PRUDENT SPECULATOR
Research Team Selections Page 1

Keeping in mind that we generally love all of our children equally, our research team did its best to narrow our 100+ equity holdings.

THE MONEYSHOW SAN FRANCISCO 2018

Sector	Ticker	Company	Price	Target Price	Price Multiples EPS	Sales	TBV[1]	EV/ EBITDA[2]	FCF Yield[3]	Debt/ TE[4]	Div Yield	Mkt Cap
Technology Hardware	AAPL	Apple	215.05	225.81	19.0	4.1	9.7	11.6	5.5	91%	1.4%	1038,767
Banks	BAC	Bank of America	30.98	39.32	14.0	nmf	1.8	nmf	nmf	nmf	1.9%	309,436
Banks	C	Citigroup	71.12	102.87	12.0	nmf	1.2	nmf	nmf	nmf	2.5%	178,981
Technology Hardware	CSCO	Cisco Systems	45.99	52.60	17.7	4.4	nmf	13.5	5.8	227%	2.9%	216,286
Capital Goods	DE	Deere & Co	142.61	190.61	16.6	1.3	8.1	6.6	-4.4	468%	1.9%	46,246
Media	DIS	Walt Disney	111.94	147.37	16.8	2.9	nmf	11.1	5.8	224%	1.5%	166,482
Real Estate	DLR	Digital Realty Trust	122.03	134.35	19.2	nmf	4.9	nmf	nmf	nmf	3.3%	26,187
Real Estate	DOC	Physicians Realty Trust	17.59	22.99	16.4	nmf	1.3	nmf	nmf	nmf	5.2%	3,202
Transportation	FDX	FedEx	246.94	328.45	16.1	1.0	5.5	9.9	-1.5	127%	1.1%	65,300
Banks	FITB	Fifth Third Bancorp	29.75	40.00	13.5	nmf	1.6	nmf	nmf	nmf	2.4%	19,824
Pharmaceuticals, Biotech	GILD	Gilead Sciences	73.82	118.17	9.9	4.1	nmf	7.8	8.8	2477%	3.1%	95,696
Automobiles	GM	General Motors	36.13	54.94	5.8	0.4	1.7	2.5	13.1	230%	4.2%	50,975
Energy	HAL	Halliburton	41.20	63.26	21.2	1.6	6.0	12.1	5.0	174%	1.7%	36,252
Software & Services	IBM	Int'l Business Machines	145.24	195.67	10.4	1.6	nmf	10.0	9.4	nmf	4.3%	132,570
Semiconductors	INTC	Intel	47.05	60.30	11.8	3.3	6.3	7.8	5.8	72%	2.6%	216,948

Note that the selections were made on August 21 with the report constructed on August 22, so the choice of the last stock on the list (kudos to Chris for making the pick) was very well timed!

THE PRUDENT SPECULATOR
Research Team Selections Page 2

Keeping in mind that we generally love all of our children equally, our research team did its best to narrow our 100+ equity holdings.

THE MONEYSHOW SAN FRANCISCO 2018

Sector	Ticker	Company	Price	Target Price	Price Multiples EPS	Sales	TBV[1]	EV/ EBITDA[2]	FCF Yield[3]	Debt/ TE[4]	Div Yield	Mkt Cap
Materials	IP	International Paper	$51.66	$77.75	11.5	0.9	7.2	9.0	1.3	366%	3.7%	21,123
Pharmaceuticals, Biotech	JNJ	Johnson & Johnson	$134.61	$150.08	17.3	4.5	nmf	14.5	5.1	nmf	2.7%	361,126
Semiconductors	LRCX	Lam Research	$173.08	$253.20	9.4	2.5	5.8	6.9	8.5	40%	2.5%	27,274
Professional Services	MAN	ManpowerGroup	$90.23	$142.40	11.0	0.3	5.0	6.8	6.2	89%	2.2%	5,855
Materials	NTR	Nutrien Ltd	$55.04	$67.63	nmf	1.8	3.3	nmf	nmf	73%	2.9%	34,156
Insurance	PRU	Prudential Financial	$98.72	$138.75	8.4	nmf	0.9	nmf	nmf	nmf	3.6%	41,166
Consumer Services	RCL	Royal Caribbean Cruises	$118.33	$148.00	14.4	2.8	2.4	12.1	2.5	70%	2.0%	24,727
Capital Goods	SIEGY	Siemens AG	$64.31	$90.58	14.3	2.3	13.5	11.4	4.3	384%	2.6%	109,327
Diversified Financials	SYF	Synchrony Financial	$31.70	$50.30	10.1	nmf	1.9	nmf	nmf	nmf	2.6%	23,480
Energy	TOT	Total SA	$62.37	$82.71	14.1	1.0	1.5	7.2	2.8	35%	3.8%	166,280
Food, Beverage & Tobacco	TSN	Tyson Foods	$62.50	$86.85	10.4	0.6	nmf	9.1	8.3	nmf	1.9%	24,864
Telecom Services	VZ	Verizon Communications	$54.14	$64.99	12.9	1.7	nmf	7.8	6.2	nmf	4.4%	223,703
Consumer Durables	WHR	Whirlpool	$128.82	$209.74	9.2	0.4	nmf	16.0	2.2	nmf	3.6%	8,317
Food & Staples Retailing	WMT	Walmart	$95.67	$111.65	20.1	0.6	5.3	10.5	6.4	97%	2.2%	282,307
Retailing	WSM	Williams-Sonoma	$62.61	$77.33	15.8	0.9	5.1	8.2	7.6	30%	2.7%	5,071

As of 08.22.18. nmf=Not meaningful. [1]Tangible book value. [2]Enterprise value-to-earnings before interest taxes depreciation and amortization. [3]Free cash flow yield. [4]Tangible equity. SOURCE: Al Frank using data from Bloomberg

While we are always braced for financial market volatility, we see no reason to alter our long-term enthusiasm for the prospects of our diversified portfolios of undervalued stocks,…

AFAM CAPITAL

THE PRUDENT SPECULATOR
Equity Strategies & Benchmark 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	15.7	13.0	1.2	2.1	2.7
Select Value	15.8	12.8	1.3	2.2	2.3
Select Dividend	16.0	13.2	1.1	2.1	3.0
Select Focused Dividend	14.3	12.2	1.0	2.3	3.2
Select Focused Value	15.1	13.1	1.3	2.5	2.6
Select SMID Dividend	17.1	13.7	0.7	1.9	2.5
Russell 3000	22.3	18.7	2.1	3.3	1.8
Russell 3000 Growth	28.2	23.4	3.0	7.5	1.2
Russell 3000 Value	18.4	15.5	1.6	2.1	2.4
Russell 2000	38.4	27.3	1.3	2.4	1.3
Russell 2000 Growth	100.4	46.0	1.8	4.8	0.6
Russell 2000 Value	23.5	19.1	1.0	1.6	2.0
Russell 1000	21.5	18.2	2.2	3.4	1.8
Russell 1000 Growth	26.6	22.5	3.2	7.8	1.3
Russell 1000 Value	18.1	15.3	1.7	2.1	2.4
S&P 500 Index	20.8	17.8	2.2	3.4	1.8
S&P 500 Growth Index	25.0	21.1	3.7	6.3	1.2
S&P 500 Value Index	17.4	15.0	1.5	2.2	2.5
S&P 500 Pure Value Index	15.4	12.8	0.7	1.5	2.4

As of 08.26.18. 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.

…especially as we liked what Fed Chair Jerome Powell had to say on Friday, "Over the course of a long recovery, the U.S. economy has strengthened substantially. The unemployment rate has declined steadily for almost nine years and, at 3.9 percent, is now near a 20-year low. Most people who want jobs can find them. Inflation has moved up and is now near the Federal Open Market Committee's (FOMC) objective of 2 percent after running generally below that level for six years. With solid household and business confidence, healthy levels of job creation, rising incomes, and fiscal stimulus arriving, there is good reason to expect that this strong performance will continue."

Stock Updates

Jason Clark and Chris Quigley provide updates on a half-dozen of our holdings that were out with quarterly results last week…

Home improvement retailer **Lowe's Cos** (LOW – $106.80) saw its shares rise 9% last week following its quarterly earnings release and conference call. While the adjusted results were fine, investors were encouraged by the company's announced actions to grow sales per square foot, control costs and improve inventory management. LOW, under the guide of new CEO Marvin Ellison, has undergone a massive overhaul of the "C-suite," and as a first major move, the company said it would shutter its Orchard Supply Hardware business. We think these efforts should help better streamline the business and lead to improved operating efficiency over time (and improved cashflow should result from a focus on inventory and cash conversion).

As for the latest quarter, LOW posted earnings per share of $2.07, versus the $2.02 estimate. Revenue for the period came in at $20.89 billion, versus a consensus forecast of $20.81 billion. Given the cost of winding down Orchard Supply and inventory management initiatives that will be put in place, LOW reduced its full-year adjusted EPS guidance (to a range of $4.50 to $4.60, down from $5.40 to $5.50), though the cut is due to one-time items.

Mr. Ellison commented, "We posted solid results this quarter by capitalizing on delayed spring demand. We are committed to driving even stronger performance in the future by sharpening our focus on retail fundamentals and by limiting any projects and initiatives that take us away from our core mission of being a great omni-channel home improvement retailer. I would like to thank our associates for their hard work and commitment to the company."

"In addition to the decision to exit Orchard Supply Hardware, we are developing plans to aggressively rationalize store inventory, reducing lower-performing inventory while investing in increased depth of high velocity items. Exiting Orchard Supply Hardware and rationalizing inventory are the driving force behind the changes to Lowe's Business Outlook," continued Mr. Ellison. "Our strategic reassessment is ongoing as we evaluate the productivity of our real estate portfolio and non-retail business investments. We will update you on the changes to our strategy at the upcoming analyst and investor conference in December."

We think that a continued favorable macroeconomic backdrop should bolster the home improvement industry, Lowe's included, for the foreseeable future. Our Target Price for LOW has been raised to $125.

Before market open on Friday, footwear and apparel retailer **Foot Locker** (FL – $48.32) reported fiscal Q2 2019 results that included top and bottom-line beating numbers. Despite the better-than-expected results, shares fell more than 9% on the day, as investors were seemingly concerned about store traffic and nearer-term margin pressures due to increased wage expenses and the cost of further investment in the company's digital footprint. For Q2, FL earned $0.75 per share (vs. $0.70 est.). FL had sales of $1.78 billion (vs. $1.76 billion est.).

CEO Richard Johnson defended the results, "Our performance reflects the work we are doing on several fronts to position the company to succeed in a rapidly evolving retail environment. We remain optimistic that our improving product flow and depth in premium styles positions us to deliver stronger comparable sales growth in the second half of 2018."

CFO Lauren Peters added, "We are encouraged by the results we delivered, including a return to growth on the top line combined with gross margin expansion. We maintained our disciplined approach to inventory management in the second quarter, which is enabling us to flow improving merchandise assortments into the business for back-to-school and the holidays."

Foot Locker spent $93 million to buy back 1.8 million shares during the quarter, yet the company reported $950 million of cash on its balance sheet, with only $124 million of debt (a net cash per share position of more than $7.00). While increased expenses can be a cause of concern, we think investments in staff that can improve the in-store experience and in FL's digital presence can pay long-term dividends. We continue to believe that the company's solid cash position, growing online presence and inventory management give us plenty of reasons to hold the stock, while those with limited retail stock exposure might consider picking up FL shares. After all, our Target Price now stands at $77.

Shares of family-oriented department store operator **Kohl's** (KSS – $80.86) were on a roller coaster last week, falling Tuesday morning more than 4% after the company's fiscal Q2 2019 earnings release, only to rebound intraday and end the week up 5.7%. While we thought the Q2 numbers were very strong, investors initially sold shares on concerns that gross margins might weaken in the second half of the fiscal year, but seemingly came to their senses concerning results as the week moved on. For the quarter, KSS earned $1.76 per share, versus consensus estimates of $1.64. Kohl's had sales of $4.31 billion, compared to a $4.29 billion estimate.

CEO Michelle Gass said, "We are pleased to report that our sales momentum continued in the second quarter, resulting in a comparable sales increase of 3.1%, our fourth consecutive quarter of positive comparable sales. We saw strength across the business -- both our store and digital channels, all regions of the country, and our proprietary and national brands. Our Men's and Women's apparel businesses led the company, followed closely by Footwear. We also reported higher gross margin as a result of our ongoing focus on inventory management. I would like to thank our team for their outstanding efforts in delivering strong and sustainable performance, which are reflected in our results."

The company now expects its fiscal 2018 diluted adjusted earnings per share to be $5.15 to $5.55, compared to prior guidance of $5.05 to $5.50. We generally have been pleased by Kohl's evolution, which was quite necessary to ward off other e-commerce giants. We remain fond of the company's solid free-cash-flow generation and think that investments it is making in its online business, smaller store concepts and loyalty program will continue to pay off. While we think KSS valuation is still reasonable, we are keeping a close eye on things as the stock price is up more than 49% in 2018, and 115% over the last twelve months. The dividend yield for KSS shares is 3.0%. Our Target Price for KSS has been elevated to $86.

Health care equipment developer and manufacturer **Medtronic PLC** (MDT - $95.55) posted earnings per share of $1.17, versus the $1.11 estimate, in fiscal Q1 2019. MDT had sales of $7.4 billion (vs. $7.2 billion est.). Shares jumped 5.7% following the announcement, as diabetes revenue grew 26.3% year-over-year, driven by sustained strong demand for the MiniMed 670G hybrid closed loop system.

CEO Omar Ishrak explained, "We are executing against our strategies. We are growing our markets and driving share gains across multiple businesses and multiple geographies. Businesses that were challenged 12 months ago are now headed in the right direction, as evidenced by the past three quarters. We continue to execute in emerging markets and with our differentiated programs that deliver improved economic value to payers and providers. Our execution is not only on the top line, but also down the P&L. We delivered margin expansion through our Enterprise Excellence program, while increasing our investment in R&D to fuel future growth."

CFO Karen Parkhill offered the outlook, “With respect to earnings, we are increasing our fiscal year 2019 implied constant currency EPS growth forecast from a range of 8% to 9% to a range of 9% to 10% on the heels of our strong quarter. However, at recent rates, foreign exchange looks to be neutral to full year EPS versus a $0.05 benefit prior. So, despite the increase in our constant currency EPS forecast, given the recent currency volatility, the ongoing discussions around trade tariffs, and the fact that it is still early in our fiscal year, we have elected to leave our non-GAAP EPS guidance unchanged in the range of $5.10 to $5.15. For the second quarter in particular, we expect organic revenue growth to be in the range of 5.5% to 6%.”

We believe that MDT continues to offer appealing long-term returns and continue to think that the acquisition of Covidien a few years ago has produced a stronger and more appealing company. Pairing MDT’s diversified product portfolio aimed at a wide range of chronic diseases with Covidien’s breadth of products for acute care in hospitals (a 2015 merger) has strengthened the firm’s position as a key partner for its hospital customers, which boosts our optimism about the long-term growth prospects. We remain fans of Medtronic’s diverse portfolio, as when certain product lines wane, new offerings are seemingly always rolled out to help offset slowdowns and foster growth. With domestic demographic trends in its favor, we like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT yields 2.1% and trades at less than 19 times NTM adjusted EPS projections. Our Target Price for MDT has been increased to $105.

General merchandise discount store chain **Target** (TGT - $87.31) earned $1.47 per share in fiscal Q2 2019 (vs. $1.40 est.). TGT had total revenue of $17.6 billion, versus the $17.2 billion estimate. Shares climbed 3.2% following the announcement, reaching all-time highs as shareholders were enthused that the company’s reformatting plan is working well.

CEO Brian Cornell remarked, "Comparable sales grew 6.5% in the quarter, representing Target's strongest quarterly comp performance since 2005.This increase was driven by transit growth of more than 6%, an unprecedented number and by far the strongest performance since we began recording this metric in 2008. Total sales were up 7% from a year ago, reflecting 0.5 point of growth from our new and non-mature stores. Store comparable sales increased nearly 5% and digital sales grew more than 40% in the second quarter, as guests continued to respond to a growing menu of convenience of women options, newness throughout our merchandising categories, freshly remodeled stores and a higher level of service across the chain."

Mr. Cornell continued, "There is no doubt that, like others, we're currently benefiting from a very strong consumer environment, perhaps the strongest I've seen in my career. But market share data demonstrates that our current results are benefiting from more than just the environment, as we're seeing broad market share gains across categories we sell."

Mr. Cornell also offered some insight regarding the effect of tariffs, "Like many of you, we've been carefully monitoring recent tariff announcements and we're aware of the potential for the situation to further escalate. As we've said many times, as a guest-focused retailer, we're concerned about tariffs because they would increase prices on everyday products for American families. In addition, a prolonged deterioration in global trade relationships could damage economic growth and vitality in the United States. Given these risks, we've been expressing our concerns to our leaders in Washington, both on our own and along with other retailers and trade association partners. However, our concern is centered on the impact of tariffs on consumers and the economy, not our ability to manage our business in the face of these challenges. As you know, when we're faced with tariffs or any other external factors, there are multiple levers we can pull to remain price competitive and maintain profitability, and we are continually developing and implementing contingency plans as we learn more and things evolve."

For fiscal 2019, TGT expects to earn $5.30 to $5.50 per share, versus the prior estimate of $5.15 to $5.45. And for the upcoming quarter, TGT expects to earn $1.00 to $1.20 per share. The retailer returned $750 million to shareholders in the quarter via share repurchases and dividends; and expects to make $3.5 billion of capital expenditures for the full year. While we expect there to be no shortage of competitive and geopolitical headwinds in the future, we think that Target's strong balance sheet, small stores and large investments in its multi-channel sales network should help solidify its foundation for the future. TGT shares trade for 16 times forward earnings and offer a just-increased quarterly dividend of $0.64 per share, resulting in a yield of 2.9%. Our Target Price has been raised to $94.

Luxury home goods retailer **Williams-Sonoma** (WSM - $71.36) earned $0.77 per share in fiscal Q2 2019 (vs. $0.68 est.). WSM had sales of $1.3 billion, matching the consensus estimate, and shares soared 16.5% after the company's earnings beat and guidance raise caused shorts (about 25% at the time, according to Bloomberg) to cover their shares.

CEO Laura Alber commented, "Today, we're announcing another quarter of strong results, with top line growth at the high end of guidance, gross margin significantly above last year, and a substantial EPS outperformance. Our powerful multi-channel, multi-brand platform, together with our strong execution of our strategic initiatives in digital leadership, product innovation, retail transformation and operational excellence are having a positive impact on all parts of our business. Given the results in the first half and the momentum our initiatives are creating, we are raising our full-year guidance for net revenues, comp revenue growth, operating margin and EPS. Growth was broad-based across all of our brands, with the Pottery Barn brand's comps continuing to improve year-over-year."

Ms. Alber concluded, "These results reflect the powerful advantage of our multi-channel, multi-brand platform, along with the important progress that we continue to make on our strategic priorities. The combination of inspiring content, compelling product and lower clearance levels are driving strong sales, as well as higher selling margins. Together with our aggressive optimization of the retail slate and supply chain, we are able to deliver strong top line growth, gross margin expansion and EPS outperformance this quarter. Our strong execution in the first half sets us up to deliver on the important holiday season and long-term future growth. Our cross-brand launches, including Ensemble, our innovative product pipeline, our new and remodeled stores, our improved inventory positions, and our supply chain optimization gives us confidence in our performance over the balance of the year, and as a result, we substantially raised our full-year guidance today."

WSM has seen a substantial boost from the reduction in corporate tax rate as well as strong consumer demand this year, and we believe that the trends will continue. WSM expects to earn $4.26 to $4.36 per share in fiscal 2019, an increase from the prior range of $4.15 to $4.25. Certainly, increasing competition from Amazon and margin pressure aren't new risk factors for the company, but we continue to smile upon the investments in technology and in sizable WSM's online presence, and believe those features when paired with exceptional customer service and collaborations with other brands differentiate WSM's from the rest of the retail world. Shares yield 2.4%. Trading for just 16.1 times estimated earnings, our Target Price for WSM has been hiked to $85.