MARKET COMMENTARY MONDAY, NOVEMBER 20, 2017

EXECUTIVE SUMMARY

Week in Review – Give Us a Few More Days Like Thursday & Friday
House Passes Corporate Tax Reform – Long Way to Go Before 20% Becomes Law
32 Undervalued High-Tax Payers – Nice Rally on the House Tax Vote
Contrarian Buy Signal – AAII Bearishness Spikes & Bullishness Plunges
Time In the Market Trumps Market Timing – Historical Perspective for Long-Term Investors
Q3 Earnings – 73.6% Beating the Street
Target Prices – Updated Listing Posted to theprudentspeculator.com
Company News – Updates on TSN, CSCO, WSM, FL, TGT, WMT & CMI

Market Review

Given the relative struggles that Value stocks in general and many of our undervalued companies in particular have endured of late, it was a terrific last two days of the trading week for our strategies. True, the Russell 3000 Growth index still edged out the Russell 3000 Value index for the full five days by a total return score of +0.18% to +0.07%, but it has been a while since we've seen a market review headline like "Retailers Show Strength, But Tech Leads Downturn," as appeared in Saturday's edition of *The New York Times*.

No doubt, the primary catalyst for the late-week rally was the passage of a tax-reform bill in the U.S. House of Representatives. Of course, the Senate has now taken up the legislation and there are plenty of battles ahead before it might become law, but a cut in the pre-deduction corporate tax rate from 35% to 20% would benefit more than a few of our companies, even as individuals in high-tax states, like good-old California, may actually see their personal income tax burden increase.

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TPS Favorites for Corporate Tax Reform

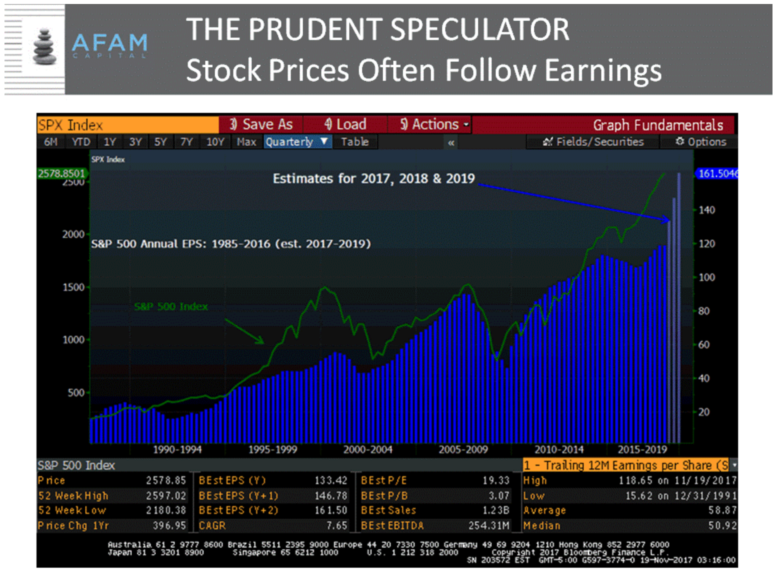
TAX CUT STOCKS

Symbol	Common Stock	Min 3 Year Tax %	11.15.17 Price	11.17.17 Price	Two-Day % Chg	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
WFC	Wells Fargo	30.4	$53.75	$54.15	0.7%	$61.84	Banks	13.2	nmf	1.8	nmf	nmf	nmf	2.9%	266,649
ARII	American Railcar	36.4	$36.44	$36.96	1.4%	$50.89	Capital Goods	13.4	1.4	1.3	7.3	-6.0	95%	4.3%	705
TPC	Tutor Perini	35.7	$23.10	$23.50	1.7%	$35.19	Capital Goods	12.2	0.2	1.2	7.9	0.5	90%	0.0%	1,170
TRN	Trinity Industries	33.3	$32.84	$33.63	2.4%	$38.77	Capital Goods	22.4	1.3	1.6	9.0	1.7	102%	1.5%	5,104
DE	Deere & Co	30.2	$132.27	$135.77	2.6%	$139.96	Capital Goods	25.5	1.5	5.7	8.1	1.3	310%	1.8%	43,622
MAN	ManpowerGroup	36.6	$124.62	$126.18	1.3%	$133.35	Commercial/Pro Services	18.8	0.4	8.2	10.3	5.1	46%	1.5%	8,362
MDC	MDC Holdings	32.0	$33.18	$33.90	2.2%	$49.26	Consumer Durables	11.3	0.7	1.3	11.7	11.0	62%	2.9%	1,761
SYF	Synchrony Fin'l	36.9	$32.53	$33.86	4.1%	$42.85	Diversified Financials	12.9	nmf	2.1	nmf	nmf	nmf	1.8%	26,499
COF	Capital One Fin'l	31.3	$87.63	$87.83	0.2%	$110.09	Diversified Financials	11.6	nmf	1.4	nmf	nmf	nmf	1.8%	42,575
CVS	CVS Health	38.4	$69.80	$70.68	1.3%	$121.31	Food & Staples Retailing	12.4	0.4	nmf	8.0	11.3	nmf	2.8%	71,598
KR	Kroger	32.8	$21.61	$23.41	8.3%	$34.20	Food & Staples Retailing	12.3	0.2	10.5	6.4	6.6	663%	2.1%	20,824
WMT	Wal-Mart Stores	30.3	$89.83	$97.47	8.5%	$103.38	Food & Staples Retailing	22.3	0.6	5.0	10.3	6.3	71%	2.1%	291,163
TSN	Tyson Foods	31.6	$76.21	$77.97	2.3%	$85.24	Food	14.7	0.8	nmf	11.1	5.3	nmf	1.5%	31,150
AET	Aetna	41.6	$171.00	$173.20	1.3%	$183.53	Health Care Equip/Srvcs	17.0	0.9	15.6	13.5	1.7	225%	1.2%	56,481
CAH	Cardinal Health	32.7	$56.83	$57.51	1.2%	$89.49	Health Care Equip/Srvcs	10.9	0.1	nmf	10.3	10.5	nmf	3.2%	18,093
KMB	Kimberly-Clark	30.6	$113.43	$114.32	0.8%	$143.28	Household & Personal Pro	18.7	2.2	nmf	11.7	5.3	nmf	3.4%	40,213
ALL	Allstate	31.8	$100.38	$100.17	-0.2%	$105.10	Insurance	14.7	nmf	2.0	nmf	nmf	nmf	1.5%	36,061
DIS	Walt Disney	34.2	$103.69	$103.44	-0.2%	$134.87	Media	18.1	2.9	55.2	11.2	5.4	661%	1.5%	159,658
CMCSA	Comcast	31.1	$37.18	$36.16	-2.7%	$44.95	Media	17.9	2.0	nmf	8.3	7.2	nmf	1.7%	169,004
DSW	DSW Inc	38.1	$19.63	$22.15	12.8%	$28.26	Retailing	15.7	0.6	2.1	5.3	7.4	0%	3.6%	1,780
LOW	Lowe's Cos	36.9	$78.37	$80.22	2.4%	$112.68	Retailing	18.5	1.0	15.6	10.5	7.2	369%	2.0%	66,808
KSS	Kohl's	35.7	$42.27	$43.72	3.4%	$56.90	Retailing	11.6	0.4	1.5	4.9	13.6	88%	5.0%	7,370
WSM	Williams-Sonoma	35.3	$50.78	$45.78	-9.8%	$63.07	Retailing	13.0	0.7	3.3	6.1	7.7	0%	3.4%	3,867
FL	Foot Locker	33.9	$31.20	$40.82	30.8%	$69.97	Retailing	9.7	0.7	1.9	3.9	7.6	5%	3.0%	5,062
AEO	American Eagle	33.7	$13.87	$14.93	7.6%	$16.03	Retailing	13.0	0.7	2.5	5.5	4.8	0%	3.3%	2,643
TGT	Target	32.5	$54.16	$58.14	7.3%	$74.61	Retailing	12.1	0.5	2.9	6.0	14.4	104%	4.3%	31,623
JBL	Jabil	31.8	$28.58	$29.22	2.2%	$39.93	Technology Hardware	13.8	0.3	3.5	5.2	10.3	112%	1.1%	5,162
T	AT&T	32.7	$33.81	$34.51	2.1%	$43.23	Telecom Services	11.8	1.3	nmf	6.7	7.8	nmf	5.7%	211,857
ALK	Alaska Air Group	36.3	$64.44	$66.40	3.0%	$103.58	Transportation	9.0	1.1	5.7	5.4	6.4	166%	1.8%	8,170
NSC	Norfolk Southern	35.4	$126.42	$127.54	0.9%	$140.53	Transportation	20.5	3.5	2.9	10.4	3.5	73%	1.9%	36,495
DAL	Delta Air Lines	34.1	$49.33	$49.82	1.0%	$69.89	Transportation	10.4	0.9	nmf	5.2	2.3	nmf	2.4%	35,520
FDX	FedEx	33.6	$214.45	$216.00	0.7%	$251.99	Transportation	18.1	1.0	6.3	8.8	-0.7	164%	0.9%	57,920
	Averages:	34.0			3.2%			14.9	1.0	6.4	8.2	5.9	162%	2.4%	55,155

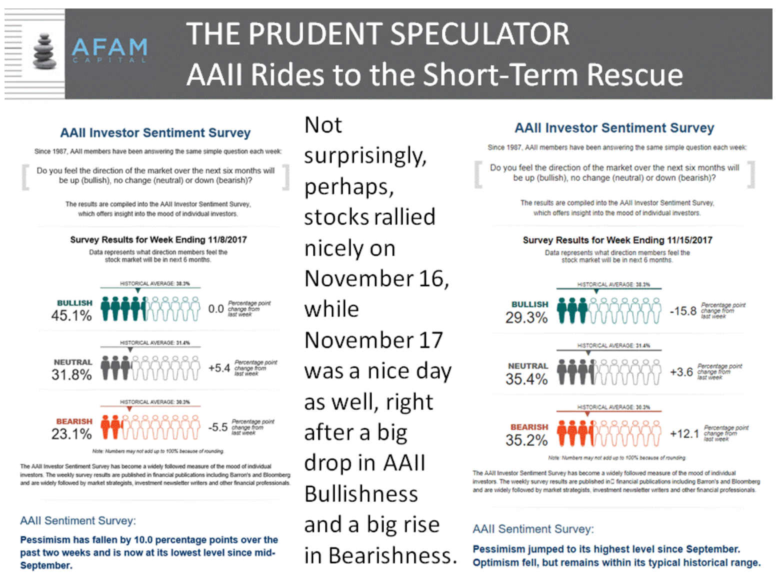
As of 11.17.17. nmf=Not meaningful. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

Still no certainty that Washington will agree to a corporate tax cut, but the passage of a tax-overhaul bill in the House on Nov. 16 propelled elevated-tax payers nicely higher on average...for two days at least.

Still, given that it is difficult to envision a sustained market downturn without an earnings recession, we generally would look favorably on anything that can bolster after-tax corporate profits.



There was additional good news last week in that investor enthusiasm for equities plummeted, at least according to the weekly American Association of Individual Investors Bull-Bear Sentiment Survey. Indeed, the number of respondents who said they were Bullish on stocks for the next six months tumbled by 15.8 points to a below-normal level of 29.3%, while those who said they were Bearish jumped 12.1 points to an above-normal 35.2%.



The Bull-Bear Spread fell to minus 5.9, with this measure proven over its three decades to be a pretty good contra indicator. Given how often investors seem to zig when they should zag, it should not be a big surprise that the markets often rally when pessimism spikes,…

THE PRUDENT SPECULATOR
AAII Sentiment – Contrarian Indicator

Warren Buffett states, "Be greedy when others are fearful and fearful when others are greedy," and the weekly AAII Bull-Bear Spread and subsequent performance supports the Oracle of Omaha's assertion.

AAII Bull-Bear Spread

Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.5								
-54.0	8.5	759	1.0%	0.9%	2.8%	2.4%	5.9%	5.1%
8.5	62.9	758	0.4%	0.4%	1.8%	1.6%	4.3%	3.8%
Ten Equal Groupings of 1517 Data Points								
-54.0	-14.8	152	1.3%	1.0%	3.8%	3.3%	7.8%	6.5%
-14.6	-7.0	152	1.0%	0.8%	3.2%	2.8%	5.9%	5.2%
-7.0	-1.0	152	1.6%	1.5%	3.1%	2.6%	6.3%	5.6%
-0.7	3.9	152	0.9%	0.8%	2.0%	1.7%	4.8%	4.3%
3.9	8.6	152	0.5%	0.4%	2.1%	1.8%	4.4%	3.7%
8.6	13.0	152	0.4%	0.3%	1.7%	1.5%	4.4%	4.0%
13.0	17.7	152	0.7%	0.7%	2.1%	1.8%	5.6%	5.1%
17.7	23.0	151	0.8%	0.7%	2.3%	2.0%	5.6%	5.1%
23.0	31.0	151	0.1%	0.0%	2.0%	1.8%	4.0%	3.4%
31.0	62.9	151	0.1%	0.1%	1.1%	0.8%	2.1%	1.6%

Source: Al Frank using data from American Association of Individual Investors and Blomberg. Returns are NOT annualized.

…which is another reason that we offer the constant admonition that the only problem with market timing is getting the timing right.

THE PRUDENT SPECULATOR
Few Actually Earn the Market Return

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

2017 Quantitative Analysis of Investor Behavior (QAIB)

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

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

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

In actuality, years of historical stock return data (along with our top-of-table long-term newsletter performance ranking, despite always being near fully invested) show that time in the market is far more important than market timing. That said, we realize that it is sometimes very difficult for investors to get started in equities or to make new commitments to stocks as there is always the fear of buying at the top or pushing one's chips onto the table right before a big downturn. For those with those concerns nowadays, we think a look at long-term return comparisons between buying at the best time versus the worst time in any given year should provide some comfort.

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THE PRUDENT SPECULATOR
Time in the Market Beats Market Timing

Clearly, it is better to buy at the low point in any given year, but for those investing for the long-term, getting started and letting time work its magic is far more important than hoping a crystal ball is prescient.

Russell 3000 Annualized Returns

Year	Since Low	Since High	Since Start of Q1	Since Start of Q2	Since Start of Q3	Since Start of Q4	Year	Since Low	Since High	Since Start of Q1	Since Start of Q2	Since Start of Q3	Since Start of Q4
1979	11.9%	11.5%	11.9%	11.7%	11.7%	11.5%	1998	7.8%	6.4%	7.2%	6.7%	6.7%	7.4%
1980	12.0%	10.9%	11.6%	11.8%	11.5%	11.2%	1999	6.6%	5.7%	6.4%	6.3%	6.0%	6.5%
1981	11.8%	11.2%	11.1%	11.1%	11.2%	11.7%	2000	6.8%	5.5%	5.7%	5.5%	5.8%	5.8%
1982	12.2%	11.2%	11.5%	11.9%	12.0%	11.7%	2001	8.8%	6.3%	6.5%	7.4%	7.1%	8.4%
1983	11.3%	10.7%	11.3%	11.0%	10.7%	10.8%	2002	10.9%	7.7%	7.7%	7.8%	8.9%	10.4%
1984	11.5%	11.1%	10.9%	11.2%	11.3%	11.1%	2003	10.9%	8.7%	10.1%	10.5%	9.5%	9.4%
1985	11.1%	10.6%	11.2%	10.9%	10.8%	11.0%	2004	9.4%	8.4%	8.7%	8.7%	8.7%	9.1%
1986	10.7%	10.0%	10.6%	10.2%	10.1%	10.4%	2005	9.2%	8.4%	8.4%	8.8%	8.8%	8.6%
1987	11.0%	9.5%	10.4%	9.8%	9.8%	9.6%	2006	9.1%	7.9%	8.6%	8.3%	8.7%	8.5%
1988	10.7%	10.3%	10.7%	10.5%	10.4%	10.4%	2007	8.4%	7.4%	8.0%	8.1%	7.7%	7.7%
1989	10.5%	9.7%	10.4%	10.3%	10.0%	9.8%	2008	17.5%	8.3%	8.3%	9.7%	10.1%	11.5%
1990	10.8%	9.8%	9.8%	10.0%	9.9%	10.7%	2009	19.4%	13.4%	15.2%	17.2%	15.6%	14.0%
1991	10.7%	9.6%	10.4%	9.9%	10.0%	9.9%	2010	15.7%	13.1%	13.6%	13.2%	15.6%	14.4%
1992	9.9%	9.6%	9.6%	9.8%	9.8%	9.8%	2011	17.5%	12.3%	13.1%	12.6%	13.1%	16.8%
1993	9.7%	9.5%	9.6%	9.5%	9.6%	9.5%	2012	15.3%	13.8%	15.3%	13.6%	14.9%	14.4%
1994	9.9%	9.4%	9.6%	9.8%	10.0%	9.8%	2013	15.1%	10.8%	15.1%	13.4%	13.5%	12.7%
1995	10.0%	8.9%	10.0%	9.7%	9.4%	9.0%	2014	12.7%	9.6%	10.8%	11.0%	10.2%	11.1%
1996	9.1%	8.2%	8.9%	8.7%	8.6%	8.6%	2015	17.5%	10.1%	10.2%	10.4%	11.5%	17.0%
1997	8.5%	7.1%	8.3%	8.4%	7.7%	7.3%	2016	24.9%	16.6%	15.7%	17.6%	18.8%	18.8%
Averages 1979-2007	10.7%	9.9%	10.4%	10.3%	10.2%	10.2%	Overall Averages	11.8%	9.7%	10.3%	10.3%	10.4%	10.7%

Source: Al Frank using data from Bloomberg

Obviously, we would all like to get lucky in our timing to buy at the best possible moment, but over time we think it far more important to put the miracle of compounding to work earlier rather than later. And for those who still can't quite pull the trigger, we note that we prefer to take four to six weeks or so from start to finish to methodically construct a new portfolio for our managed account clients, to try to take advantage of short-term price movements and to mitigate the risk of investing every penny on the day that one of the inevitable selloffs, corrections or even Bear Markets begin.

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THE PRUDENT SPECULATOR
Ups & Downs but Value & Dividends Win

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

LONG-TERM RETURNS

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

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	106.0%	904	26	3.5	3/9/2009	11/8/2017
17.5%	66.8%	576	37	2.4	10/3/2011	11/8/2017
15.0%	66.5%	560	43	2.1	10/3/2011	11/8/2017
12.5%	43.8%	330	70	1.3	2/11/2016	11/8/2017
10.0%	35.0%	248	103	0.9	2/11/2016	11/8/2017
7.5%	23.3%	146	152	0.6	2/11/2016	11/8/2017
5.0%	14.7%	72	294	0.3	6/27/2016	11/8/2017

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.5	1/6/2009	3/9/2009
-17.5%	-30.6%	225	36	2.4	4/29/2011	10/3/2011
-15.0%	-28.5%	195	42	2.1	4/29/2011	10/3/2011
-12.5%	-22.7%	140	69	1.3	5/21/2015	2/11/2016
-10.0%	-19.3%	103	102	0.9	11/3/2015	2/11/2016
-7.5%	-15.4%	66	151	0.6	11/3/2015	2/11/2016
-5.0%	-10.9%	37	293	0.4	6/23/2016	6/27/2016

From 02.20.28 through 11.8.17. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Al Frank using data from Bloomberg, Morningstar and Ibbotson Associates

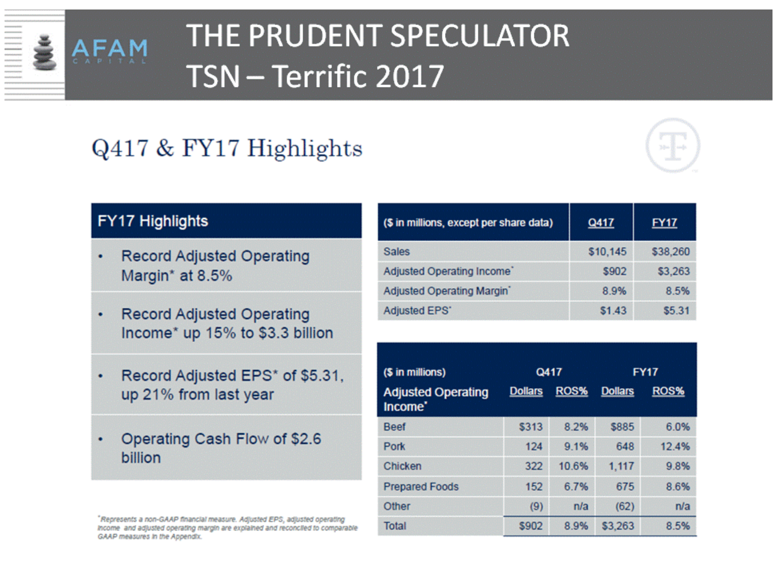
Stock Updates

Third quarter earnings reporting season is almost over and the results that trickled in last week continued to be very good. With 474 of the S&P 500 members now having announced Q3 numbers, data provider Bloomberg calculates that 73.6% have exceeded consensus analyst projections. The "Beat" percentage compares to a tally of 72.5% for the full reporting season in the year ago period, though the reactions to the latest results were very much mixed. Jason

Clark and Chris Quigley update a half dozen of our stocks out with Q3 results last week, with an updated listing of all of our formerly recommended but not yet closed out stocks posted this weekend to theprudentspeculator.com…

Tyson Foods (TSN – $77.97) shares continued their solid performance in 2017 last week, rising another 5% following the protein producer's strong fiscal Q4 2017 financial results. For the three month period, TSN generated revenue of $10.1 billion, versus consensus expectations of $9.9 billion. Additionally, adjusted EPS for the quarter was $1.43, compared to projections of $1.36. "The fourth quarter was a strong finish to another record year," said Tyson CEO Tom Hayes. "We delivered well over our goals of at least 4% operating income growth, EPS growth in the high single digits and 3% volume growth in value-added products, and expect to meet or exceed these goals again in fiscal 2018."

Mr. Hayes continued, "Fiscal 2017 was a year of great change and, despite some challenges, our team remained focused on the long term by keeping consumer relevance, customer growth and shareholder value creation at the forefront. Not only did we generate exceptional financial results, we also strengthened the foundation needed to accelerate growth through several initiatives. We refined our strategy and put in place a new management team to implement it. With a renewed focus on protein packed brands, we initiated the divestiture of some non-protein businesses. We acquired and are successfully integrating AdvancePierre Foods to expand our manufacturing capabilities in sandwiches and other prepared foods and to increase our presence in the convenience store channel. We repurchased roughly $650 million in shares before the AdvancePierre acquisition and then redirected cash flow and proceeded to pay down more than $600 million of debt. We announced a restructuring and cost cutting program to increase our agility as an organization. To cap off a great year, the Board of Directors increased the dividend by $0.30 to $1.20 per share annually, an increase of 33%."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THE PRUDENT SPECULATOR
TSN – Terrific 2017

Q417 & FY17 Highlights

FY17 Highlights

- Record Adjusted Operating Margin* at 8.5%
- Record Adjusted Operating Income* up 15% to $3.3 billion
- Record Adjusted EPS* of $5.31, up 21% from last year
- Operating Cash Flow of $2.6 billion

($ in millions, except per share data)	Q417	FY17
Sales	$10,145	$38,260
Adjusted Operating Income*	$902	$3,263
Adjusted Operating Margin*	8.9%	8.5%
Adjusted EPS*	$1.43	$5.31

($ in millions)	Q417		FY17	
Adjusted Operating Income*	Dollars	ROS%	Dollars	ROS%
Beef	$313	8.2%	$885	6.0%
Pork	124	9.1%	648	12.4%
Chicken	322	10.6%	1,117	9.8%
Prepared Foods	152	6.7%	675	8.6%
Other	(9)	n/a	(62)	n/a
Total	$902	8.9%	$3,263	8.5%

*Represents a non-GAAP financial measure. Adjusted EPS, adjusted operating income and adjusted operating margin are explained and reconciled to comparable GAAP measures in the Appendix.

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Looking ahead, Mr. Hayes explained, "Fiscal 2018 is off to a great start, and we're currently expecting adjusted earnings growth of 7-10 percent to $5.70-5.85 per share. We're confident in our ability to realize in excess of $200 million in net savings this fiscal year from our Financial Fitness program, including AdvancePierre synergies. We're planning capital expenditures of $1.4 billion in fiscal 2018 while we continue reducing debt to reach our net debt to EBITDA target of around 2x, which we anticipate will happen by the third quarter. When we reach that target, we intend to resume repurchasing our shares."

We remain impressed with the operational momentum the company has been enjoying, and believe that continued expansion in prepared foods and increasing protein consumption around the globe, especially in emerging economies, provide a solid long-term footing for top-line growth. And we like the continued right-sizing and cost-cutting to ensure that the bottom line continues to benefit. TSN currently trades at 13.5 times NTM adjusted EPS consensus estimates, and we have boosted our Target Price to $85.

Communications equipment firm **Cisco Systems** (CSCO – $35.90) earned $0.61 per share in fiscal Q1 2018 with total revenue of $12.1 billion, a penny and $29 million ahead of the consensus estimates, respectively. Cisco's share price rose 5%, eclipsing $36 for the first time since 2001, as the company predicted a return to revenue growth. While the transition for CSCO to a subscription-based business has been arduous and frustrating for quite a few years now, management indicated that the headwinds may be beginning to abate.

CEO Chuck Robbins said, "We are seeing great traction with our new intent-based networking solutions, delivering accelerated innovation across our portfolio and offering a broader range of new consumption options to our customers, resulting in strong increases in our software and subscription revenue. The progress we've made resulted in all three of our geographic regions returning to orders growth during Q1. Cisco has always been about connecting people, information and machines at scale. Today, the network is becoming more pervasive and critical to business success as billions of new connections are added. We expect these new connections will become increasingly automated, intelligent and secure, delivering unprecedented insights and intelligence to our customers."

CFO Kelly Kramer added, "We expect revenue growth in the range of 1% to 3% year-over-year. We anticipate the non-GAAP gross margin rate to be in the range of 62.5% to 63.5%. And the non-GAAP operating margin rate is expected to be in the range of 29.5% to 30.5% and the non-GAAP tax provision rate is expected to be 22%. Non-GAAP earnings per share is expected to range from $0.58 to $0.60." The guidance excludes any impacts related to the company's previously announced acquisition of BroadSoft.

We think Cisco's challenging transformation has put the company on a path to long-term success, which is not to prematurely declare victory and proclaim that the company is out of the woods. We view the fiscal Q1 results as a cairn on the path. We continue to like CSCO's strong balance sheet with more than $7 per share in net cash and believe that the stock trades at a big discount with a forward 12-month P/E ratio of 14.4 and a 3.2% dividend yield. Our Target Price has been raised to $40.

Home goods retailer **Williams-Sonoma** (WSM – $45.78) earned $0.84 per share in fiscal Q2 2018, matching the consensus estimate. WSM had sales of $1.29 billion, $9 million ahead of the analyst consensus estimate. Williams-Sonoma, which also owns the Pottery Barn and West Elm brands, announced plans to acquire 3-D imaging and AR (augmented reality) startup Outward for $112 million in cash. Outward specializes in replicating physical products into augmented reality applications, for practical applications such as apps or websites that would allow a customer to see how furniture or décor would look inside their home.

While WSM continues to invest in its online presence, the company struggled to maintain its margins, resulting in analyst downgrades and price target reductions that sent shares plunging as much as 15% on Friday. WSM's gross margin for fiscal Q2 was 35.9%, compared with 36.8% a year ago. The operating margin was 7.0%, compared with 7.9% a year ago. Management explained that the "lower selling margins" were due mostly to higher shipping costs, as well as higher employment expenses in retail stores and digital advertising costs. Indeed, it was particularly disappointing to have such large margin deterioration after management's guidance from last quarter indicated that margins were expected to be flat year-over-year.

CEO Laura Alber noted, "Looking to the holiday season, we are focused on creating the best-in-class online gifting destination with an emphasis on digital marketing and our dynamic assortment of curated personalized gifts. We continue to leverage the growth of our existing owned and franchise businesses by opening new stores, expanding through new channels and introducing our brands into new markets. In Q3, we executed several wholesale arrangements to introduce the Williams-Sonoma brand to our UK customers with pop-ups in both Fortnum & Mason and Harrods as well as the West Elm brand to the Ireland customer with a full-scale shop-in-shop in Arnotts in Dublin. We'll be also opening our second West Elm store in the Kingston area of London later this year. And as our global operations continue to grow, we are actively exploring opportunities for franchise expansion into new larger markets and to establish our e-commerce presence around the world, both company-owned and with our franchise partners."

She concluded, "Overall, we are committed to driving top line growth and are making strategic investments to enhance our value proposition, deliver a superior customer experience and drive new customer acquisition. These investments are enabling us to enhance and more effectively leverage our high touch customer service platform and set a new industry standard."

WSM increased its fiscal 2018 revenue guidance range to between $5.225 billion and $5.29 billion (previously $5.165 billion to $5.265 billion). The adjusted EPS range was reduced to between $3.45 and $3.60, from the previous range of $3.45 to $3.65 per share. Certainly, increasing competition from Amazon and margin pressure aren't new risk factors for the company, and they explain a large part of the reason that the stock is trading at a bargain price by our view. We hardly think that the setback warrants abandoning ship, and we continue to smile upon the investments in technology and in WSM's online presence (53.1% of total company revenue is derived from e-commerce), and believe those features when paired with exceptional customer service differentiate WSM's brands from the rest of the retail world. We also like the balance sheet, which includes no long-term debt (though there are lease obligations). The company has $256 million remaining on its repurchase program, which it intends to execute over the next three years, and the stock yields a rich 3.4%, while trading for just 12.6 times estimated earnings. Our Target Price now stands at $63.

While still battered and beaten on the year, shares of **Foot Locker** (FL – $40.82) jumped 28% on Friday after the footwear and apparel retailer reported better than expected results for fiscal Q3 2018. Though FL's operating environment remains highly promotional, impacting margins, the firm was still able to surprise to the upside. Adjusted EPS was reported at $0.87, versus forecasts of $0.80. Revenue for the quarter of $1.87 billion slightly outpaced investor expectations of $1.82 billion.

"The company's results in the quarter were broadly in line with our expectations," said CEO Richard Johnson. "Despite the highly promotional environment we still see in the marketplace, the availability of premium product is gradually improving compared to the first half of the year, and we believe we can achieve, and perhaps modestly exceed, the top- and bottom-line guidance we gave for the fourth quarter back in August."

Mr. Johnson continued, "The reduction and reorganization of our corporate and division staff during the quarter, while a difficult decision, was a critical step in positioning us for success as we navigate through the tremendous disruption affecting our customers and the retail industry in general. We are adjusting our course proactively, including creating new initiatives with key vendors and making critical investments in our digital platforms and supply chain, to ensure that Foot Locker will continue to thrive at the center of sneaker culture and, more broadly, youth culture."

CFO Lauren Peters added, "In addition to taking meaningful steps to create an even more flexible and efficient organization, we maintained our solid management of inventory in the third quarter, which is enabling us to flow improving merchandise assortments into the business for the holiday season. We also significantly accelerated the pace of share repurchases in the quarter given the value we perceived in the price of the company's shares."

While we don't see the operating landscape improving much in the near-term, we believe that the plunge in the stock on the year has been well overdone, offering hearty investors a very compelling valuation story. Yes, changing consumer preferences and growing competition from Amazon and others are perpetual issues, but FL has historically been able to turn in strong results (current EPS estimates for fiscal 2019 and 2020 stand at $3.95 and $4.35), with opportunities across distribution channels, geographic locations, banners and product categories. We believe the company has been doing the right things to evolve and has begun to turn things around with its strategic cost control and productivity plans, willingness to shutter non-essential locations, partnerships with shoe makers like **Nike** (NKE – $59.19) on specialty sneakers, and solid growth of its digital shopping platforms. Further, we like the balance sheet ($6+ of net cash per share), the forward P/E ratio of 10.3 and the 3.0% dividend yield. Our Target Price has been increased to $70.

General merchandise discount store chain **Target** (TGT – $58.14) reported earnings per share of $0.91, versus the $0.86 estimate in fiscal Q3 2018. TGT had revenue of $16.7 billion, versus the $16.6 billion estimate. Shares of the retailer fell more than 10% on Wednesday, though closed the week 'only' 5.3% lower after recovering some of the losses during Friday's trading session. While Target had a decent third quarter, the outlook for the "highly competitive and promotional" fourth quarter was below analyst estimates. TGT expects adjusted EPS between $1.05 and $1.25, whereas the consensus midpoint was $1.24 with a range of $1.16 to $1.41.

CEO Brian Cornell said, "Digital sales grew 24% on top of 26% a year ago. And we announced new innovative partnerships with both Google and Pinterest that will continue to expand the digital reach of our brand. We saw a meaningful increase in the percent of our sales at regular price, reflecting the benefit of our work to communicate value more clearly and provide our guests confidence that Target assortment is priced right daily. We rolled out four new owned brands across our home and apparel categories, all of which are off to a great start. And we generated an unprecedented amount of buzz when we announced an amazing new designer partnership with Chip and Joanna Gaines called Hearth and Hand with Magnolia, which launched last week."

While digital sales are growing quickly, TGT is not neglecting physical stores, according to Mr. Cornell, "We also remodeled 37 stores in the quarter in support of our plan to transform 110 stores this year, and we opened 12 new stores in a single week in October. These stores are located in a diverse array of neighborhoods across the country, ranging from our new Herald Square location in New York City, all the way to our newest location in Honolulu. Beyond the direct financial returns we are seeing on these investments, our guests continue to confirm for us both through their feedback and their shopping decisions that our efforts are paying off. And finally, this quarter, we made some meaningful announcements regarding our team. In early September, we announced our intent to hire an additional 100,000 team members for the peak holiday season, up from 70,000 a year ago. And later that month, we announced we would increase our minimum wage nationally to $11 an hour in October in support of a commitment to raise our national minimum to $15 an hour by the end of 2020."

The retailer returned $510 million to shareholders in the quarter via share repurchases and dividends, and devoted more than $800 million in capital in Q3 to business improvements. Although TGT shareholders seemed quite unhappy with the guidance, we weren't as displeased. Given the huge capital expenditures and costs of playing catch-up with other online giants, we think it is a positive that TGT raised full-year EPS guidance to a range of $4.40 to $4.60 (previously $4.34 to $4.54). And while we expect there to be no shortage of challenges in the holiday season, we think that Target's strong balance sheet and large investments in e-commerce will help solidify its foundation for the future. TGT shares trade for 13.6 times forward earnings and offer a dividend yield of 4.3%. Our Target Price has been trimmed to $75.

Discount superstore chain **Wal-Mart Stores** (WMT – $97.47) reported earnings per share of $1.00, versus the $0.98 estimate for its fiscal Q3 2018. WMT had revenue of $123.2 billion, versus the $121.0 billion consensus estimate. Shares soared almost 11% on Thursday on the heels of the solid third quarter and upbeat fourth quarter guidance. In Q3, Wal-Mart U.S. same-store sales increased 2.7% (well above the 1.8% estimate) as store traffic was up 1.5% year-over-year and the comparable ticket gained 1.2%. Sam's Club traffic was up 3.6% year-over-year, while the average ticket was down 0.8%. For fiscal 2018, WMT expects to earn between $4.38 and $4.46 per share (previously $4.30 to $4.40).

CEO Doug McMillon offered some details on WMT's projects, "We've expanded online grocery pickup, launched Mobile Express Returns, and we're testing automated pickup towers and same-day grocery delivery. We're also learning how to automate some routine functions in our stores, like scanning for shelf level out of stocks and modular accuracy. We're leveraging our unique assets and financial strength to better serve customers and accelerate growth."

He continued, "When we were together last month, we outlined four priorities: make every day easier for busy families, change how we work, deliver results and operate with discipline, and be the most trusted retailer. By executing on all these strategic priorities, we're confident that our customers and shareholders will benefit. The importance of that fourth priority, being the most trusted retailer, was certainly amplified over the past three months. We saw significant destruction through hurricanes and wildfires in the U.S. and the earthquake in Mexico. I'm so proud of the commitment our associates showed to the communities we serve. During these difficult times, our customers needed us more than ever, and associates responded to each crisis in remarkable fashion. We're proud that as a company, we committed over $38 million to disaster relief this year, and that our customers have donated over $43million, bringing the total to more than $80 million to-date."

CFO Brett Biggs noted, "The fourth quarter is underway and we're offering easy access to great products at excellent value heading into this holiday season both in our stores and online. For the 13-week period ending January 26, 2018, we expect comp sales to increase between 1.5% and 2% on a more difficult comparison."

With Wal-Mart e-commerce sales up 50% year-over-year and another solid quarter of operating results under the company's belt, we think that WMT might be one of the few companies to have Amazon shaking in its boots. We are pleased with WMT's continued progress and its willingness and resolve to evolve and not just allow the likes of Amazon to be the aggressor. We think the firm's acquisitions and ongoing expenditures in e-commerce, as well as continued investment in its employees, will make a long-term difference in performance, and we continue to like the diversification and growth potential provided by the international segment, as well as the differing store concepts to capture additional grocery and urban market business.

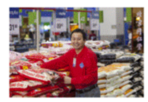
AFAM CAPITAL

THE PRUDENT SPECULATOR
WMT – Substantial Free Cash Flow

Wal-Mart Stores, Inc.

(Amounts in millions)	YTD	$ Δ[1]
Operating cash flow	$17,060	-$2,721
Capital expenditures	$6,908	-$551
Free cash flow[2]	**$10,152**	**-$2,170**

(Amounts in millions)	Q3	% Δ[1]	YTD	% Δ[1]
Dividends	$1,526	-1.5%	$4,614	-1.5%
Share repurchases[3]	$2,209	57.6%	$6,656	6.4%
Total	**$3,735**	**26.6%**	**$11,270**	**3.1%**



Walmart

[1] Change versus prior year comparable period.
[2] See press release located at www.stock.walmart.com and reconciliations at the end of this presentation regarding non-GAAP financial measures.
[3] Effective November 20, 2017, share repurchases will be made under the company's $20 billion share repurchase authorization approved in October 2017.

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We have hiked our Target Price to $103 on the results and improved outlook as we like that WMT continues to generate strong free cash flow and remains committed to returning capital to shareholders via buybacks and dividends (the stock still yields 2.1%, despite the big 41% total return this year). Of course, the P/E ratio is now more than 22, so we are keeping a watchful eye on the valuation, though we note that the effective tax rates for Q3 and YTD were 33.9% and 32.9%, respectively.

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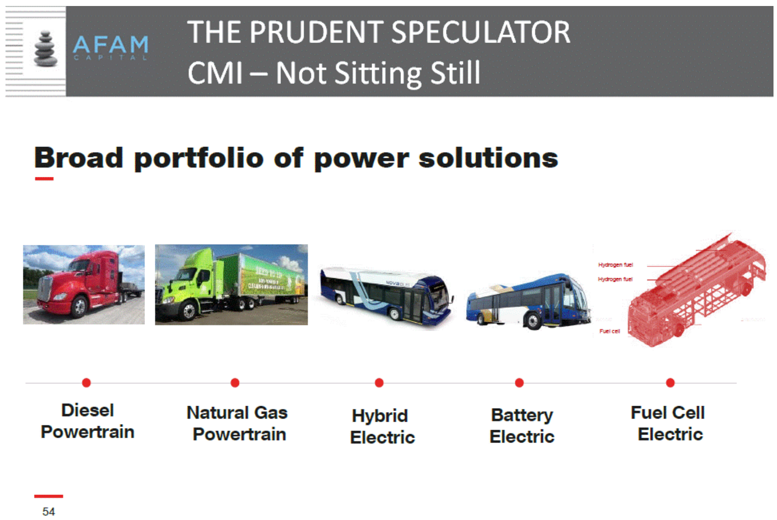
Shares of engine maker **Cummins** (CMI – $159.41) fell more than 4% Friday after wunderkind Elon Musk unveiled Tesla's electric semi. The introduction came with a few surprises, including longer mileage range than expected and lower all-in cost per mile of operation, though details were scant on how the tractor might fare hauling a heavy load. Still, the fact that Mr. Musk was able to announce that Tesla had already received a small order from shipper J.B. Hunt and Wal-Mart said that it would test the semis as they became available, caused some consternation for investors in Cummins and other truck-related manufacturers. CMI, of course, was hit on concern about the potential impact to its "big-rig" engine business.

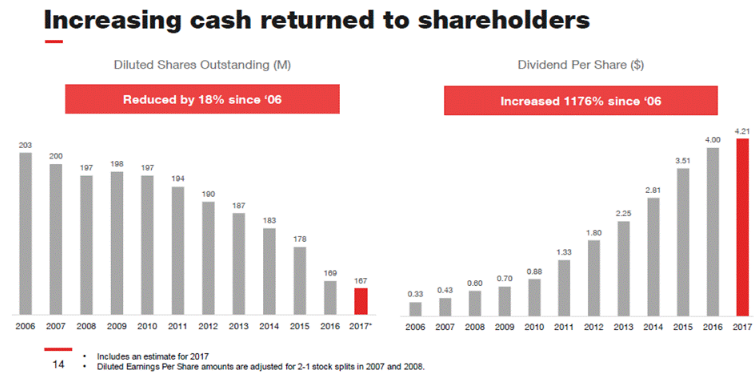
We are not naïve to the fact Tesla could be a viable competitor, however, as that company currently stands, there is a big difference between showing a snazzy truck on stage and actually being able to pump out large numbers of semis anytime soon. This is especially true in Tesla's case, given its severe struggles to produce their current electric automobile line-up and the company's massive cash burn. That said, we realize that Tesla has plenty of fanboys who have piled into its overvalued shares, so there are sources of capital for Mr. Musk to tap, while the company could choose to partner on production with a traditional vehicle maker if it grows weary of continuously stumbling on its own.

And, we would add that there will need to be a vast network of charging stations to truly make Tesla's vision viable and cost effective for shipping. As such, we think that investors may be jumping the gun as it seems most are being overly optimistic about how quickly Tesla could take over the market, while many seem to be ignoring or are unaware that Cummins has itself been working on an electric semi as well as other alternatives to the traditional diesel engine.



While some of the specs on the electric semi CMI has been partnering to work on don't seem to be quite as impressive as what Tesla has initially marketed, we like that Cummins is obviously not waiting for the world to change before changing itself, and we are constructive on its broad global lineup that runs from diesel to hybrid to a coming all-electric. CMI has committed to investing $500 million over the next three years in electric and "to-come" technologies via partners and by itself, as well as continuously evaluating potential acquisitions in these spaces. To be sure, in the long run, things like Tesla's new electric semi, as well as other competitive pressures, will continue to force CMI to evolve and heavily invest in changing technologies, but we generally have been pleased to see strong demand from North America and China. We believe the latter continues to support 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.

THE PRUDENT SPECULATOR
CMI – Rewarding Shareholders



Unlike Tesla, we also note that CMI makes quite a bit of money ($9.85 per share in the last four quarters), which has allowed it to return plenty of capital to shareholders. In fact, in the last 11 years, Cummins has reduced its share count by 18% and grown the annual per share dividend from $0.33 to $4.21. We do concede that CMI management modestly trimmed some near-term expectations during its Analyst Day on Thursday, but we find the stock to be attractively valued, trading for 14 times NTM adjusted EPS projections and yielding 2.7%. Our Target Price for CMI now stands at $189.

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