the Prudent Speculator

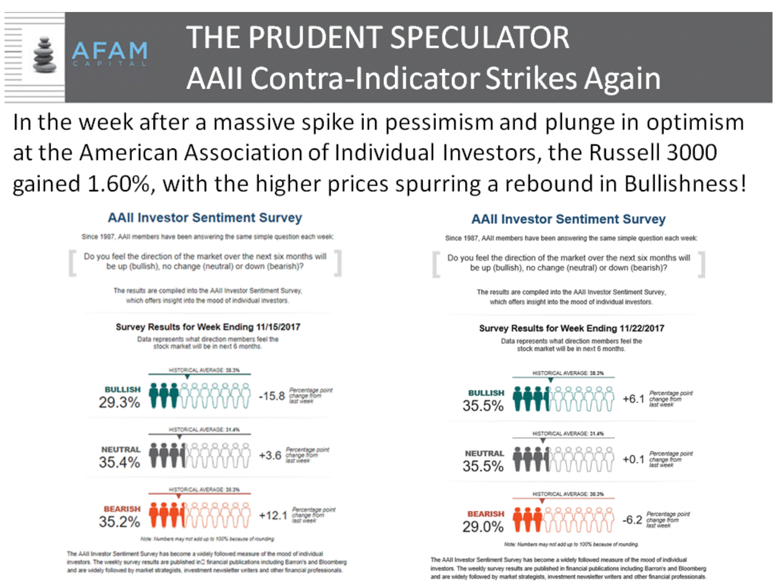
MARKET COMMENTARY MONDAY, NOVEMBER 27, 2017

EXECUTIVE SUMMARY

Week in Review - Rally Continues
AAII Sentiment - Contrarian Indicator Strikes Again
Value vs. Growth - Less Expensive Stocks Continue to Lag
Portfolio Metrics - We Like our Ratios
Fed Minutes - Rate Hike Likely Next Month; One or Two More in 2018
Fed Funds Historical Perspective - 5.3% Average Rate
Income Comparisons - Stocks Still Look Very Appealing
Most Wonderful Time of the Year - Favorable November to April Time Span
Q3 13-F Filing - AFAM Capital's 25 Largest Equity Holdings
Company News - Updates on DE, MDT, DSW, LOW & MRVL

Market Review

We hope everyone had a terrific Thanksgiving – the equity markets certainly enjoyed the week, though trading was holiday light, with the S&P 500 and Russell 3000 indexes hitting new records, climbing 0.93% and 1.03%, respectively. Perhaps not surprisingly, we might attribute the handsome gains to the dramatic shift in sentiment seen the week prior via the AAII Sentiment Survey. True, the good folks at the American Association of Individual Investors became more optimistic in the November 22 poll, taking back a good portion of the double-digit percentage moves down in Bullishness and up in Bearishness from November 15, but the current readings are still less enthusiastic than the norm of 38.3% Bulls and 30.3% Bears.



True, growth again outperformed Value on the week, with the Russell 3000 Growth index gaining 1.47%, compared to a 0.57% advance for the Russell 3000 Value index, extending the former's year-long winning streak…

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Value vs. Growth Returns

Returns Race

2017 YTD Return %	2016 Return %	Bloomberg Symbol	Index
21.83	16.50	INDU Index	Dow Jones Industrial Average
29.34	8.97	CCMP Index	NASDAQ Composite Index
18.31	12.04	RIY Index	Russell 1000 Index
13.19	21.28	RTY Index	Russell 2000 Index
17.91	12.72	RAY Index	Russell 3000 Index
18.36	11.95	SPX Index	S&P 500 Index
15.51	10.67	W5000 Index	Wilshire 5000 Total Market
28.13	7.07	RLG Index	Russell 1000 Growth Index
9.15	17.33	RLV Index	Russell 1000 Value Index
20.67	11.28	RUO Index	Russell 2000 Growth Index
6.42	31.72	RUJ Index	Russell 2000 Value Index
27.55	7.38	RAG Index	Russell 3000 Growth Index
8.92	18.38	RAV Index	Russell 3000 Value Index
25.54	6.89	SGX Index	S&P 500 Growth Index
10.22	17.39	SVX Index	S&P 500 Value Index
27.39	4.22	SPXPG Index	S&P 500 Pure Growth Index
11.81	19.62	SPXPV Index	S&P 500 Pure Value Index

Source: Bloomberg. 2017 YTD as of 11.24.17

Mutual Fund Benchmarks

			Annualized	
Investment Objective	YTD	1-Year	3-yr	5-yr
Large-Cap Core Funds	17.15	18.85	8.52	13.89
Large-Cap Growth Funds	28.92	28.16	11.21	15.77
Large-Cap Value Funds	11.17	13.76	6.79	12.89
Mid-Cap Core Funds	12.38	13.43	7.19	13.07
Mid-Cap Growth Funds	23.23	21.79	8.84	14.03
Mid-Cap Value Funds	9.09	10.95	6.47	12.86
Small-Cap Core Funds	10.64	12.65	8.54	13.57
Small-Cap Growth Funds	21.62	19.91	9.57	14.28
Small-Cap Value Funds	6.88	10.19	7.34	12.50
Multi-Cap Core Funds	16.28	17.54	7.75	13.64
Multi-Cap Growth Funds	27.49	26.53	10.05	15.06
Multi-Cap Value Funds	10.73	12.94	6.57	12.94
S & P 500 Daily Reinv	18.36	20.45	10.23	15.45

Source: The Wall Street Journal. As of 11.24.17

…but it remains difficult to complain too much about our Value-index-beating returns this year, especially given the still-relatively inexpensive valuation metrics for our newsletter portfolios in an environment where many pundits are worried that the equity markets have become richly priced.

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THE PRUDENT SPECULATOR
Newsletter Portfolios & Index 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	16.0	14.1	1.1	1.8	2.7
Buckingham	16.5	14.4	1.2	1.9	2.5
Milennium	17.1	14.6	1.2	1.9	2.5
PruFolio	16.9	14.6	1.1	1.9	2.5
Russell 3000	23.5	20.6	2.0	3.1	1.8
Russell 3000 Growth	28.2	23.6	2.7	6.4	1.3
Russell 3000 Value	19.9	18.2	1.6	2.0	2.4
Russell 2000	49.3	33.5	1.2	2.3	1.3
Russell 2000 Growth	79.2	43.7	1.6	4.4	0.8
Russell 2000 Value	35.2	26.7	1.0	1.6	1.9
Russell 1000	22.5	20.0	2.1	3.1	1.9
Russell 1000 Growth	26.8	22.7	2.9	6.6	1.3
Russell 1000 Value	19.3	17.7	1.7	2.0	2.5
S&P 500 Index	21.9	19.5	2.2	3.2	1.9
S&P 500 Growth Index	25.3	21.9	3.3	5.6	1.5
S&P 500 Value Index	18.7	17.0	1.5	2.1	2.4
S&P 500 Pure Value Index	15.9	14.7	0.7	1.5	2.2

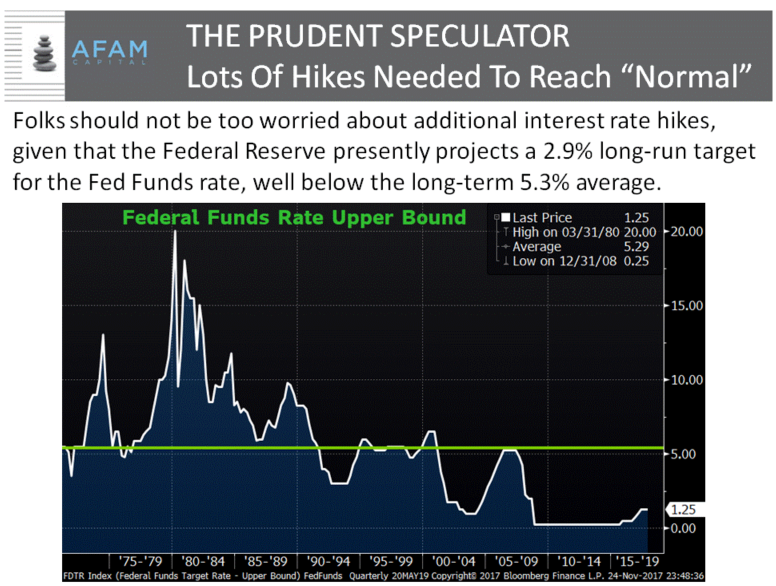
As of 11.26.17. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Al Frank using data from Bloomberg

There wasn't a whole lot of market-moving news out last week, save for the Minutes from the October 31-November 1 FOMC Meeting. Janet Yellen and Co. had the following notes on the Economic Outlook and Inflation Expectations…

The U.S. economic projection prepared by the staff for this FOMC meeting was broadly similar to the previous forecast. Real GDP was expected to rise at a solid pace in the fourth quarter of this year, boosted in part by a rebound in spending and production after the negative effects of the hurricanes in the third quarter. Payroll employment was also expected to rebound during the fourth quarter. Beyond 2017, the forecast for real GDP growth was essentially unrevised. In particular, the staff continued to project that real GDP would expand at a modestly faster pace *than potential output through 2019. The unemployment rate was projected to decline gradually over the next couple of years and to continue running below the staff's estimate of its longer-run natural rate over this period.*

The staff's forecast for total PCE price inflation was little changed for 2017, as a somewhat higher forecast for consumer energy prices was mostly offset by a slightly lower forecast for core PCE prices. Although total PCE price inflation was forecast to be about the same in 2017 as it was last year, core PCE price inflation was anticipated to be a little lower than in 2016, and consumer food and energy price inflation was expected to be a little higher. Total PCE price inflation was projected to pick up in 2018, as most of the softness in core PCE price inflation this year was expected to be transitory. However, the staff's forecasts for core inflation and, thus, for total inflation were revised down slightly for next year, reflecting the judgment that a bit of the unexplained weakness in core inflation this year may carry over into next year. Beyond 2018, the inflation forecast was unchanged from the previous projection. The staff continued to project that inflation would reach the Committee's 2 percent objective in 2019.

The Minutes did little to dissuade investors from thinking that the Fed will hike the Fed Funds rate by a quarter percentage point at the December FOMC Meeting, with one or two more rate increases expected in 2018. No doubt, some are concerned that higher interest rates will be a headwind for stocks as we move into a new year, but it is very important to keep in mind that the long-run 2.9% Fed target for the Fed Funds rate is still very low by historical standards,…



…while the "odds" are presently suggesting a 90% chance that the Fed Funds rate will remain at or below 2.0% at the end of 2018,…

THE PRUDENT SPECULATOR
Futures: One More Hike This Year

We, along with most Fed watchers, do not expect much change in the pace of the gradual boosting of interest rates, following the transition from Janet Yellen to Jereome Powell as Fed Chair. Another rate hike at the December FOMC Meeting is a near certainty, and the odds favor one or two additional increases in 2018. Of course, even with a few bumps up, the Fed Funds rate would still be very low by historical standards.

99) Export Data — World Interest Rate Probability

United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 1.16

1) Overview — 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 11/24/2017 — Based on rate 1.00-1.25

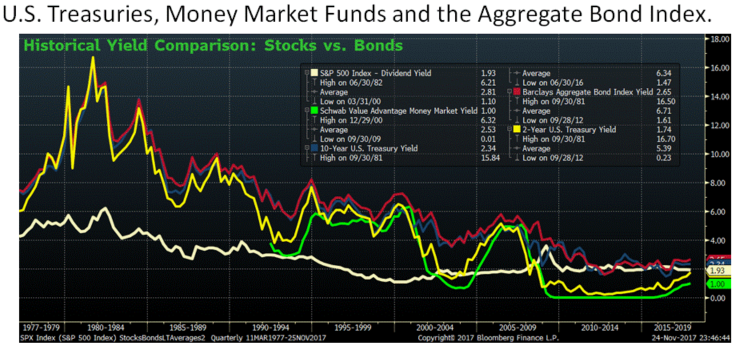
Meeting	Hike Prob	Cut Prob	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75
12/13/2017	92.3%	0.0%	7.7%	92.3%	0.0%	0.0%	0.0%	0.0%	0.0%
01/31/2018	92.4%	0.0%	7.6%	91.6%	0.8%	0.0%	0.0%	0.0%	0.0%
03/21/2018	96.7%	0.0%	3.3%	43.6%	52.7%	0.4%	0.0%	0.0%	0.0%
05/02/2018	96.9%	0.0%	3.1%	41.6%	52.2%	3.0%	0.0%	0.0%	0.0%
06/13/2018	98.3%	0.0%	1.7%	23.9%	47.4%	25.6%	1.4%	0.0%	0.0%
08/01/2018	98.4%	0.0%	1.6%	22.8%	46.2%	26.7%	2.6%	0.1%	0.0%
09/26/2018	98.8%	0.0%	1.2%	17.1%	39.9%	31.9%	9.1%	0.8%	0.0%
11/08/2018	98.9%	0.0%	1.1%	16.2%	38.7%	32.4%	10.3%	1.2%	0.1%
12/19/2018	99.0%	0.0%	1.0%	14.3%	35.7%	33.2%	13.2%	2.4%	0.2%

Source: Bloomberg

…with the interest rate backdrop in our view actually continuing to be positive for stocks, given very favorable dividend payouts on equities versus the yields available on various fixed income instruments.

THE PRUDENT SPECULATOR
Income Options – Equities Very Attractive

Though the major market averages now trade near all-time highs, the payout on the S&P 500 (1.93%) is still rich when compared to yields on fixed income instruments, and when viewed against the historical averages since we began publishing *The Prudent Speculator* in 1977 for U.S. Treasuries, Money Market Funds and the Aggregate Bond Index.



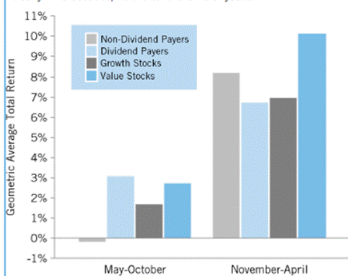
Obviously, nothing precludes stocks from selling off, and the equity futures were suggesting a lower opening to trading when the new week begins, while we realize that it has been 21 months since the markets suffered even a 5% setback, but we remain upbeat in our outlook and we certainly like where we are in the calendar,…

THE PRUDENT SPECULATOR
Most Wonderful Time of the Year

There are never any guarantees that past performance will equal future performance, but we are now just four weeks into the seasonally favorable November – April time of the year.

SEASONALITY SINCE 1929

Nice to see that Value has won the performance spoils over the past nearly nine decades, no matter the time of year...



From 04.30.29 through 04.30.17. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

NEWSLETTER PORTS' NOV-APR PERF

Though the winning streak was interrupted from 2007 through 2009, 25 out of 27 positive years makes for an interesting record.

	TPS	Millennium	PruFolio	Buckingham	Average
90-91	117.29%				117.29%
91-92	26.53%				26.53%
92-93	39.91%				39.91%
93-94	12.23%				12.23%
94-95	16.75%				16.75%
95-96	28.50%				28.50%
96-97	27.13%				27.13%
97-98	23.49%				23.49%
98-99	23.77%				23.77%
99-00	50.96%				50.96%
00-01	6.83%	29.14%			17.99%
01-02	56.45%	38.67%	41.77%		45.63%
02-03	10.78%	4.74%	17.99%		11.17%
03-04	12.62%	10.37%	18.23%	6.93%	12.04%
04-05	11.06%	10.42%	2.39%	10.77%	8.66%
05-06	19.00%	15.88%	18.39%	20.08%	18.34%
06-07	11.07%	11.78%	13.98%	16.10%	13.23%
07-08	-12.87%	-12.89%	-10.59%	-13.94%	-12.57%
08-09	-4.24%	-2.03%	-3.26%	-5.64%	-3.79%
09-10	23.15%	26.28%	19.53%	23.78%	23.19%
10-11	19.21%	18.91%	20.04%	18.13%	19.07%
11-12	11.48%	10.47%	11.48%	10.77%	11.05%
12-13	17.98%	16.74%	14.99%	16.98%	16.67%
13-14	9.62%	9.62%	8.73%	8.46%	9.11%
14-15	3.46%	1.99%	4.47%	3.10%	3.26%
15-16	1.29%	2.29%	0.73%	-0.61%	0.93%
16-17	17.40%	16.53%	15.90%	17.41%	16.81%
SOURCE: Al Frank				Geometric average	**19.61%**

…so we continue to be very content with our holdings in our broadly diversified portfolios of undervalued stocks.

THE PRUDENT SPECULATOR
AFAM Capital Q3 13-F Filing

AFAM CAPITAL Q3 2017 13-F LARGEST HOLDINGS

Symbol	Common Stock	11.24.17 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AAPL	Apple Inc	174.97	187.13	Technology Hardware	19.0	3.9	7.1	10.4	5.6	77%	1.4%	898,351
AET	Aetna Inc	176.46	183.53	Health Care Equip/Srvcs	17.3	0.9	15.9	13.7	1.7	225%	1.1%	57,544
MSFT	Microsoft Corp	83.26	89.24	Software & Services	26.3	6.8	14.4	17.2	5.0	171%	2.0%	642,317
JPM	JPMorgan Chase & Co	98.32	107.82	Banks	14.8	nmf	1.9	nmf	nmf	nmf	2.3%	341,143
GLW	Corning Inc	31.85	40.93	Technology Hardware	18.3	2.8	2.2	10.8	3.3	32%	1.9%	27,679
AMGN	Amgen Inc	170.12	222.85	Pharmaceuticals, Biotech	13.5	5.4	14.4	9.6	8.4	394%	2.7%	123,492
DIS	Walt Disney Co/The	102.64	133.76	Media	18.0	2.8	53.6	10.9	5.4	661%	1.5%	155,018
CE	Celanese Corp	106.72	118.69	Materials	15.1	2.5	10.2	16.1	3.1	208%	1.7%	14,475
RCL	Royal Caribbean Cruises	125.21	140.29	Consumer Services	16.9	3.1	2.6	12.8	8.9	60%	1.9%	26,806
CSCO	Cisco Systems Inc	36.49	40.40	Technology Hardware	15.3	3.8	5.5	10.3	7.3	79%	3.2%	180,393
INTC	Intel Corp	44.75	50.82	Semiconductors	14.1	3.4	6.1	8.7	5.6	80%	2.4%	209,430
CMCSA	Comcast Corp	35.87	44.95	Media	17.8	2.0	nmf	8.3	7.2	nmf	1.8%	167,648
PRU	Prudential Financial Inc	108.92	131.44	Insurance	10.5	nmf	1.0	nmf	nmf	nmf	2.8%	46,182
NSC	Norfolk Southern Corp	130.01	140.53	Transportation	20.8	3.6	2.9	10.6	3.4	73%	1.9%	37,202
MDC	MDC Holdings Inc	34.84	49.26	Consumer Durables & Apparel	11.6	0.7	1.3	12.0	10.7	62%	2.9%	1,810
ETN	Eaton Corp PLC	75.92	89.24	Capital Goods	16.9	1.7	nmf	12.4	5.7	nmf	3.2%	33,450
JNJ	Johnson & Johnson	138.01	151.01	Pharmaceuticals, Biotech	19.3	5.0	nmf	15.4	4.9	nmf	2.4%	370,767
DE	Deere & Co	145.50	156.23	Capital Goods	24.6	1.6	5.6	7.7	-0.9	312%	1.6%	46,749
SYMC	Symantec Corp	28.56	34.71	Software & Services	21.5	3.9	nmf	49.9	4.5	nmf	1.1%	17,707
MAN	ManpowerGroup Inc	128.14	133.35	Commercial & Pro Services	19.1	0.4	8.3	10.5	5.0	46%	1.5%	8,492
CAT	Caterpillar Inc	137.39	147.09	Capital Goods	24.8	1.9	11.3	16.7	5.5	342%	2.3%	81,738
PNC	PNC Financial Services Gı	132.56	143.71	Banks	15.8	nmf	1.9	nmf	nmf	nmf	2.3%	63,072
ADM	Archer-Daniels-Midland (	39.14	50.18	Food Beverage & Tobacco	16.5	0.4	1.6	12.1	6.8	48%	3.3%	21,889
ORCL	Oracle Corp	49.01	58.89	Software & Services	17.4	5.3	35.6	12.3	6.2	839%	1.6%	204,521
PNC	Abbott Laboratories	56.13	61.10	Health Care Equip/Srvcs	23.3	3.9	nmf	20.2	4.2	nmf	1.9%	97,700

As of 11.24.17. 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

Stock Updates

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

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

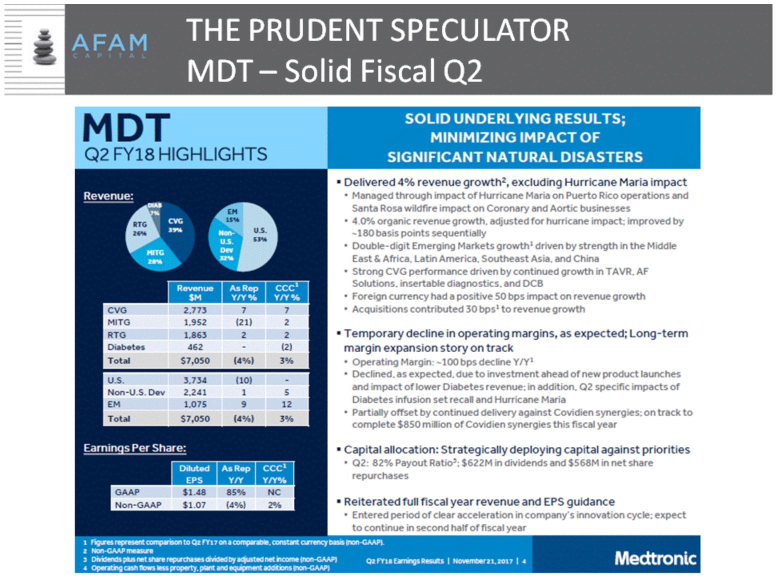
“Our performance was helped by improving markets for farm and construction equipment and also by our ongoing success establishing a broad-based product portfolio and a flexible cost structure,” said Deere spokesperson Josh Jepsen. “Deere has remained well positioned not only to serve its present customers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

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

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

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

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



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

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

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

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

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

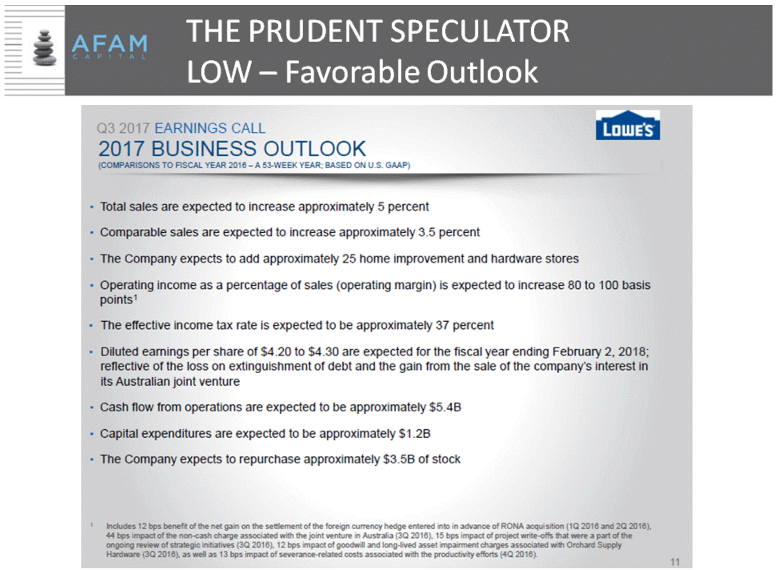
Given the impact of Q3, management moved its full year outlook for adjusted earnings down to a range of $1.40 to $1.45, from a range of $1.45 to $1.55 per diluted share. While the lowered guidance is obviously disappointing and we understand that brick-and-mortar retail continues to face some stiff operating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

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

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

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

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



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

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

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

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

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

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