the Prudent Speculator

MARKET COMMENTARY MONDAY, DECEMER 11, 2017

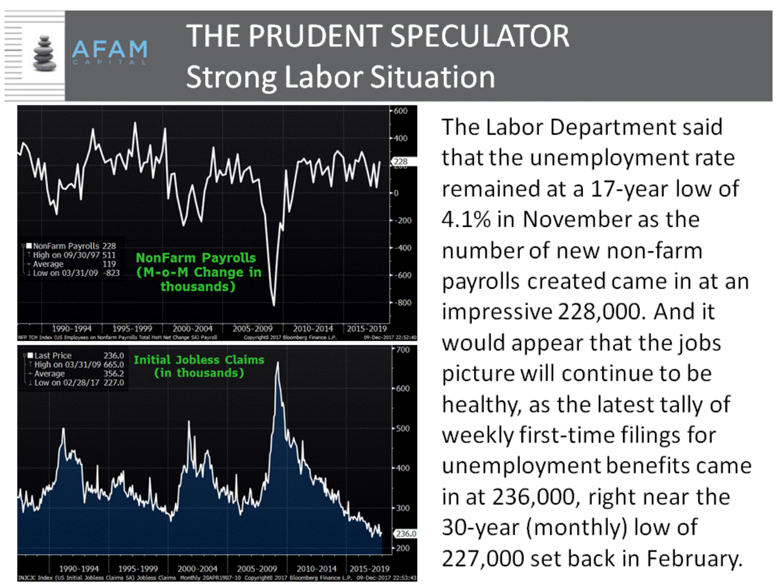
EXECUTIVE SUMMARY

Week in Review – Rally Continues, Albeit Modestly
Econ News – Healthy Jobs Report and Generally Favorable Other Statistics
Fed Rate Hikes – Several Increases Should be Coming in the Next 12 Months
Rising Rates – Good Environment Historically for Value Stocks
Sentiment – Investors Remain Less Optimistic than Normal
Market Timing – Only Problem is Getting the Timing Right
Secret to Success in Stocks – Latest Hulbert Rankings
Market of Stocks – 25 Undervalued Names Trading 15%+ Below Their 52-Week Highs
Company News – Updates on CVS, AET, QCOM & AEO

Market Review

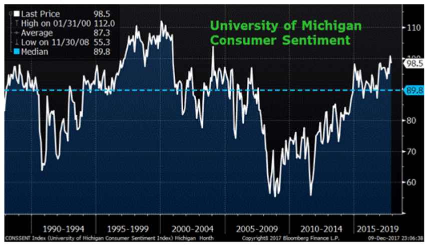
It certainly was a nice end to an up-and-down week that saw stocks again close at record highs, even as the gains for the full five trading days were modest. The S&P 500 tacked on 0.39%, while the Russell 3000 inched up 0.26%. Growth stocks again beat Value, though the differences in total return (0.30% for the Russell 3000 Growth index and 0.21% for the Russell 3000 Value index) were not grand.

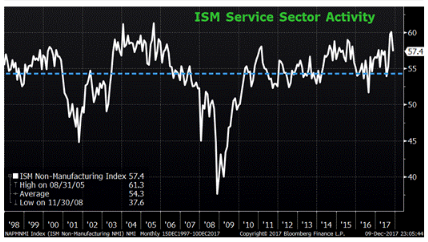
Washington remained front and center last week, with Congress continuing to work on tax reform, and the skyrocketing of Bitcoin (not something in which we would invest the hard-earned, long-term-oriented dollars that have been entrusted to our management, though we understand the excitement about the massive appreciation that the crypto-currency has seen of late) grabbed the attention of the financial press. But the market-moving news really came on Friday with the release of the generally very-good monthly report on the employment situation,…



…which continued the trend whereby most of the economic statistics have been upbeat, even if they might not have been as robust as in prior periods.

THE PRUDENT SPECULATOR
Solid Economic Statistics





The University of Michigan's latest measure of Consumer Sentiment for November came in at 98.5, a drop from 100.7 in October, but still much better than the average over the last 20 years. The ISM Non-Manufacturing Index for November dipped to 57.4, but that reading on the health of the service sector still would correspond to a very healthy 3.3% increase in real gross domestic product (GDP).

Of course, the improving economy has raised the odds that the Federal Reserve will hike interest rates faster than previously thought,…

THE PRUDENT SPECULATOR
Futures: One, Two or Three Hikes in 2018

We, along with most Fed watchers, do not expect much change in the pace of the gradual boosting of interest rates, following the transition to Jerome Powell as Fed Chair. Another rate hike at the December FOMC Meeting is a near certainty, and the odds now suggest one, two or three additional increases in 2018. Of course, even with a few bumps up, the Fed Funds rate would still be well below the 5.3% historical average.

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 12/08/2017 — 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	98.3%	0.0%	1.7%	98.3%	0.0%	0.0%	0.0%	0.0%	0.0%
01/31/2018	98.3%	0.0%	1.7%	97.5%	0.8%	0.0%	0.0%	0.0%	0.0%
03/21/2018	99.5%	0.0%	0.5%	30.8%	68.1%	0.6%	0.0%	0.0%	0.0%
05/02/2018	99.5%	0.0%	0.5%	29.0%	65.8%	4.6%	0.0%	0.0%	0.0%
06/13/2018	99.7%	0.0%	0.3%	15.9%	48.9%	32.8%	2.1%	0.0%	0.0%
08/01/2018	99.8%	0.0%	0.2%	14.8%	46.6%	33.9%	4.3%	0.2%	0.0%
09/26/2018	99.8%	0.0%	0.2%	10.7%	37.7%	37.4%	12.6%	1.3%	0.0%
11/08/2018	99.8%	0.0%	0.2%	10.0%	35.9%	37.5%	14.3%	2.1%	0.1%
12/19/2018	99.9%	0.0%	0.1%	7.3%	28.7%	37.0%	20.7%	5.5%	0.7%

Source: Bloomberg

…which we would actually view as a positive…for the undervalued stocks that have long dominated our portfolios.

THE PRUDENT SPECULATOR
Fed Liftoff & Value

Value Stocks historically have outperformed Growth Stocks, but the annualized differences are even more pronounced on average for the two-, three- and five-years following the first rate hike.

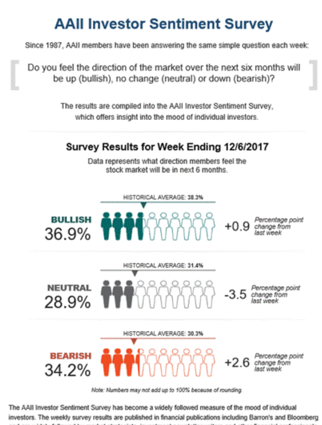
ANNUALIZED STOCK PERFORMANCE AFTER "FED LIFTOFF"

		24 MONTHS AFTER			36 MONTHS AFTER			60 MONTHS AFTER		
Starting Date (End of Month)	Initial Effective Fed Funds Rate	Value Stocks	Growth Stocks	S&P 500	Value Stocks	Growth Stocks	S&P 500	Value Stocks	Growth Stocks	S&P 500
Dec 1954	1.3%	15.6%	13.5%	18.4%	2.5%	3.8%	7.7%	17.0%	15.7%	15.0%
Aug 1958	1.5%	15.5%	18.3%	12.9%	18.8%	18.5%	16.3%	15.9%	10.5%	12.3%
Aug 1961	2.0%	11.7%	-0.5%	6.6%	14.5%	1.8%	9.8%	12.5%	3.7%	5.9%
Nov 1964	3.5%	8.5%	6.6%	0.8%	18.4%	19.3%	7.0%	15.0%	14.0%	5.5%
Aug 1967	3.9%	10.8%	7.2%	4.2%	1.7%	-5.3%	-1.3%	8.3%	6.6%	6.9%
Apr 1971	4.2%	-2.0%	-6.6%	4.5%	-1.7%	-10.8%	-1.6%	8.2%	-2.6%	3.2%
Mar 1972	3.8%	-3.0%	-19.3%	-3.4%	-1.8%	-16.1%	-4.6%	10.4%	-4.4%	2.1%
Mar 1974	9.4%	23.3%	9.1%	9.3%	20.3%	6.9%	6.0%	19.9%	10.8%	6.4%
Feb 1977	4.7%	15.1%	11.8%	3.4%	20.8%	19.1%	10.0%	17.5%	13.7%	8.0%
Aug 1980	9.6%	14.7%	0.1%	4.3%	28.7%	16.0%	16.1%	24.6%	10.4%	14.5%
Jan 1982	13.2%	37.9%	18.1%	22.6%	30.4%	15.1%	20.1%	28.9%	16.9%	23.3%
May 1983	8.8%	19.6%	0.0%	13.1%	23.5%	11.3%	20.2%	16.3%	5.2%	14.5%
Apr 1987	6.4%	11.1%	1.2%	7.3%	7.1%	3.2%	8.3%	11.0%	8.3%	11.2%
Apr 1988	6.9%	11.7%	12.2%	16.5%	10.7%	14.3%	16.9%	16.1%	11.9%	14.7%
Feb 1994	3.3%	17.3%	16.5%	20.2%	19.8%	15.4%	22.2%	18.4%	15.7%	24.1%
Jun 1999	4.8%	17.1%	0.9%	-4.4%	7.8%	-8.1%	-9.2%	10.5%	0.1%	-2.2%
Jun 2004	1.0%	17.1%	5.2%	7.5%	18.1%	9.4%	11.7%	-2.1%	-1.5%	-2.2%
Averages:	**5.2%**	**14.2%**	**5.6%**	**8.5%**	**14.1%**	**6.7%**	**9.2%**	**14.6%**	**7.9%**	**9.6%**

Source: Al Frank Using Data from Bloomberg, Professors Eugene F. Fama and Kenneth R. French, St. Louis Fed, Deutsche Bank and Morningstar

That said, we do respect that the markets have come a very long way since the last major downturn back in early-2016, so it would not surprise us to see a pullback in the near-term, with drama on the geopolitical stage likely to be the catalyst. To be sure, it also wouldn't be a shock to see the rally continue, especially given the attractiveness of stocks from a yield perspective, versus the income available on competing investments, the potential for a significant corporate tax cut and the lack of investor euphoria.

THE PRUDENT SPECULATOR
Still Little in the Way of Enthusiasm



With the major market averages again hitting record highs, the AAII Sentiment Survey still shows less Bulls and more Bears than normal, and investors are back to selling U.S. stocks, with net redemptions from ETF/mutual funds at more than $200 billion since Jan 2015.

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

Week Ended	11/29/2017	11/21/2017	11/15/2017	11/8/2017	11/1/2017
Total Equity	3,129	5,026	-54	2,851	-1,624
Domestic	-645	1,166	-4,214	-3,660	-5,454
World	3,775	3,860	4,160	6,511	3,830
Hybrid	-652	-500	-359	-373	-999
Total Bond	6,538	6,900	1,468	5,401	7,460
Taxable	6,369	6,162	839	4,499	7,234
Municipal	169	737	630	903	226
Commodity	-295	-39	136	-153	-242
Total	8,720	11,386	1,191	7,727	4,595

Source: Investment Company Institute

If that short-term outlook sounds wishy-washy, we have achieved our objective as the crystal ball remains as cloudy as ever. We want readers to understand that we firmly believe that the only problem with market timing is getting the timing right. And, on this subject, we received a note last week from a prospective subscriber…

Thank you for the sample newsletter. I am excited about exploring your services upon Mark Hulbert's recommendation. I would be interested to know your strategy for dealing with the *market correction expected in 2018. Will you recommend selling most assets in an e-mail when the bear market is about to kick in, and then buying them back at the bottom?*

Obviously, if we knew when the next Bear Market would begin, and more importantly when it would end, we would simply sell at the top and buy at the bottom, but we don't know of anyone who has managed to consistently time the market. No doubt, many have tried and some even claim to have such clairvoyance, but we concede that we have suffered through every market downturn with a near-fully-invested portfolio since *The Prudent Speculator* began publication in 1977…,

AFAM CAPITAL

THE PRUDENT SPECULATOR
Staying the Course Has Rewards

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

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

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

Hulbert's Newsletter Rankings
30-Year Performance Scorecard

Newsletter	Annualized
Prudent Speculator, The	16.13
Investment Reporter, The	13.09
Fidelity Monitor & Insight	12.54
Investment Quality Trends	12.10
NoLoad FundX	11.70
Bob Brinker's Marketimer	11.45
PaulMerriman.com	7.23
Wilshire 5000 Total Return	10.93

As of 11.30.17. Source: http://hulbertratings.com/30-year-scoreboard/

… but we have enjoyed the best long-term returns of any publication tracked by *The Hulbert Financial Digest* as we always have been positioned for every upturn, with our sensational track record (returns of more than 16% per annum over the last 30 years) validating our long-held view that the secret to success in stocks is not getting scared out of them.

AFAM CAPITAL

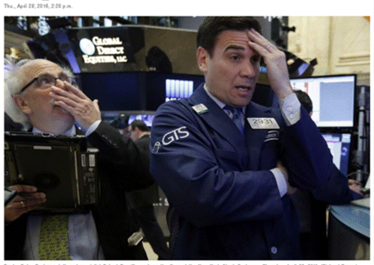
THE PRUDENT SPECULATOR
Temperament Often Trumps Intellect

There may be no better visual aid to remind folks that investing is an emotional roller coaster than Wall Street's most photographed (per Marketwatch) trader Peter Tuchman. Sadly, many panic on days as shown on the left, missing out on the rewards depicted on the right.

BUSINESS

Stocks skid as Apple pulls tech companies lower

Thu., April 28, 2016, 2:20 p.m.



Trader Peter Tuchman, left, and specialist Robert Tuccillo work on the floor of the New York Stock Exchange, Thursday, April 28, 2016. (Richard Drew / Associated Press)

© Associated Press Photo

True, we could envision having more cash in our accounts in 2018 should the big market advance continue and we have sold fairly valued stocks without finding less expensive names to take their place, but we see nothing on the horizon that would cause us to alter our bullish enthusiasm for the long-term prospects of our broadly diversified portfolios of undervalued stocks.

That does not mean that we are somehow on cruise control as there is significant value in our view in active portfolio management. Indeed, our job is to take advantage of market gyrations both on the upside when our stocks become richly priced and on the downside when the herd stampedes away from individual companies, industries or even sectors. After all, a rising or retreating tide does not lift or lower all boats equally and there seemingly always are opportunities in stocks that might be in their own private Correction or Bear Market, independent of what is happening with the S&P 500 or Dow Jones Industrial Average.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Market of Stocks; Not a Stock Market

PRIVATE CORRECTION/BEAR MARKET STOCKS

Symbol	Common Stock	52-Week High Price	52-Week High Date	% Change From High	12.8.17 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
ARII	American Railcar	$51.10	12/19/2016	-22.2	$39.74	$51.73	Capital Goods	14.5	1.5	1.4	7.7	-5.6	95%	4.0%	758
TPC	Tutor Perini	$33.00	1/26/2017	-15.9	$27.75	$35.75	Capital Goods	14.4	0.3	1.5	8.8	0.4	90%	0.0%	1,381
WHR	Whirlpool	$202.99	6/14/2017	-16.4	$169.70	$222.30	Consumer Durables	12.1	0.6	nmf	9.6	5.3	nmf	2.6%	12,195
SLB	Schlumberger Ltd	$87.84	1/19/2017	-27.7	$63.54	$101.37	Energy	49.3	3.0	17.9	19.7	3.7	323%	3.1%	88,020
TNP	Tsakos Energy	$5.28	12/12/2016	-25.4	$3.94	$8.37	Energy	35.8	0.6	0.2	8.9	nmf	119%	5.1%	334
NOV	National Oilwell	$43.63	12/12/2016	-25.2	$32.62	$44.39	Energy	nmf	1.8	2.7	nmf	3.9	60%	0.6%	12,397
HAL	Halliburton	$58.78	1/26/2017	-25.2	$43.99	$57.30	Energy	60.3	2.1	5.9	18.4	2.1	160%	1.6%	38,383
KR	Kroger	$36.44	12/19/2016	-26.8	$26.68	$36.70	Food & Staples Retailing	13.8	0.2	11.3	7.1	4.2	629%	1.9%	23,515
WBA	Walgreens Boots	$88.00	12/14/2016	-18.7	$71.55	$115.27	Food & Staples Retailing	14.0	0.6	nmf	11.5	7.7	756%	2.2%	70,860
CAH	Cardinal Health	$84.88	3/14/2017	-30.6	$58.89	$88.76	Health Care Equip/Srvcs	11.2	0.1	nmf	10.4	10.2	nmf	3.1%	18,527
ZBH	Zimmer Biomet	$133.49	7/17/2017	-15.1	$113.38	$169.04	Health Care Equip/Srvcs	14.0	3.0	nmf	15.8	5.7	nmf	0.8%	22,956
AXS	Axis Capital	$71.06	3/1/2017	-29.3	$50.25	$68.80	Insurance	nmf	nmf	0.9	nmf	nmf	nmf	3.0%	4,179
ABX	Barrick Gold	$20.78	2/17/2017	-34.3	$13.65	$23.10	Materials	18.4	1.9	2.0	4.3	5.1	79%	0.9%	15,919
AUY	Yamana Gold	$3.65	2/8/2017	-32.6	$2.46	$5.01	Materials	nmf	1.7	0.7	nmf	-4.5	41%	0.8%	2,333
MOS	Mosaic	$34.36	2/13/2017	-31.3	$23.62	$41.06	Materials	23.1	1.2	1.0	10.8	0.6	44%	0.4%	8,292
SHPG	Shire PLC	$192.15	5/18/2017	-23.0	$148.00	$253.78	Pharma, Biotech	10.2	3.1	nmf	14.2	7.0	nmf	0.6%	44,873
MRK	Merck & Co	$66.80	3/1/2017	-16.8	$55.57	$72.29	Pharma, Biotech	14.3	3.8	nmf	14.5	2.8	458%	3.5%	151,397
KIM	Kimco Realty	$26.63	12/13/2016	-31.3	$18.29	$26.02	Real Estate	11.9	nmf	1.8	nmf	nmf	nmf	6.1%	7,785
DOC	Physicians Realty	$21.85	6/27/2017	-17.5	$18.02	$23.81	Real Estate	17.2	nmf	1.3	nmf	nmf	nmf	5.1%	3,230
FL	Foot Locker	$78.18	12/13/2016	-42.5	$44.97	$70.65	Retailing	10.7	0.7	2.2	4.7	9.9	5%	2.8%	5,451
TGT	Target	$78.37	12/16/2016	-21.7	$61.37	$77.12	Retailing	12.8	0.5	3.1	6.3	13.6	104%	4.0%	33,359
SYMC	Symantec	$34.20	9/20/2017	-18.2	$27.98	$34.71	Software & Services	21.0	3.8	nmf	49.0	4.6	nmf	1.1%	17,347
IBM	IBM	$182.79	2/16/2017	-15.3	$154.81	$195.74	Software & Services	11.3	1.8	nmf	11.8	7.8	nmf	3.9%	143,322
STX	Seagate Tech	$50.96	4/25/2017	-20.5	$40.49	$45.91	Technology Hardware	9.9	1.1	nmf	8.0	9.6	nmf	6.2%	11,715
ALK	Alaska Air Group	$101.43	3/1/2017	-31.2	$69.74	$105.29	Transportation	9.5	1.1	6.0	5.6	6.1	166%	1.7%	8,581
	Averages:			-24.6				18.6	1.6	3.7	12.4	4.8	209%	2.6%	29,884

As of 12.8.17. 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

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

On December 3, pharmacy giant **CVS Health** (CVS – $73.09) formally announced its intention to acquire **Aetna** (AET – $182.73), the diversified health care benefits company and insurer. While the deal had been rumored for weeks and briefly mentioned as a possibility in our October 30 Market Commentary, the pair finally confirmed the tie-up via press release, initially sending shares of both companies sliding. Happily, the CVS losses were cut in half by the end of the week, and AET finished modestly ahead for the five days.

The joint press release said, "Under the terms of the merger agreement, which has been unanimously approved today by the boards of directors of each company, Aetna shareholders will receive $145.00 per share in cash and 0.8378 CVS Health shares for each Aetna share. The transaction values Aetna at approximately $207 per share or approximately $69 billion.

Including the assumption of Aetna's debt, the total value of the transaction is $77 billion. This transaction fills an unmet need in the current health care system and presents a unique opportunity to redefine access to high-quality care in lower cost, local settings—whether in the community, at home, or through digital tools."

CVS CEO Larry Merlo commented, "This combination brings together the expertise of two great companies to remake the consumer health care experience. With the analytics of Aetna and CVS Health's human touch, we will create a health care platform built around individuals. We look forward to working with the talented people at Aetna to position the combined company as America's front door to quality health care, integrating more closely the work of doctors, pharmacists, other health care professionals and health benefits companies to create a platform that is easier to use and less expensive for consumers."

AET CEO Mark T. Bertolini added, "This is the next step in our journey, positioning the combined company to dramatically further empower consumers. Together with CVS Health, we will better understand our members' health goals, guide them through the health care system and help them achieve their best health. Aetna has a proud tradition of continually innovating to address unmet consumer needs and providing leading products and services to the marketplace. Aetna has a talented and dedicated group of employees working to build a healthier world every day. Our combined company will be more competitive in the marketplace and accelerate progress toward achieving this mission."

As we wrote at the end of October, we believe that the merger would be a positive for both companies as it makes a strong effort to fend off a threatened Amazon challenge, with CVS gaining access to some 22 million Aetna customers for its drugstore and pharmacy-benefit management businesses, and allowing the combined company to offer businesses a full suite of health care services, while broadening its negotiating power with drug makers. Of course, there are plenty of hurdles remaining to actually get the deal done. The Trump Administration has been relatively quiet with M&A challenges thus far, opting in many cases to let the market decide which transactions work, but we think that this may be too important for even the most laissez faire administration to allow without a careful review.

No doubt, regulatory approval will be heavily dependent on the argument that the transaction will be of benefit to consumers. Here is what the companies proclaim:

Consumers will benefit from a uniquely integrated, community-based health care experience. The combined company will also be able to better understand patients' health goals, guide them through the health care system, and help them achieve their best health. There will be expanded opportunities to bring health care services to consumers every day. CVS Pharmacy locations will include space for wellness, clinical and pharmacy services, vision, hearing, nutrition, beauty, and medical equipment, in addition to the products and services our customers currently enjoy. An entirely new health services offering available in many locations will function as a community-based health hub dedicated to connecting the pathways needed to improve health and answering patients' questions about their health conditions, as well as prescription drugs and health coverage.

This personalized health care experience will be delivered by connecting Aetna's extensive network of providers with greater consumer access through CVS Health. This includes more than 9,700 CVS Pharmacy locations and 1,100 MinuteClinic walk-in clinics as well as further extensions into the community through Omnicare's senior pharmacy solutions, Coram's infusion services, and the more than 4,000 CVS Health nursing professionals providing in-clinic and home-based care across the nation. As a result, there will be a better opportunity to utilize local care solutions in a more integrated fashion with the goal of improving patient outcomes.

Given the discount at which Aetna's shares trade to the buyout price, there is plenty of skepticism that the transaction will go through, but we are continuing to hold all of our AET shares for the time being, with our Target Price now residing at $191. Of course, the stock is up 47% this year, so we might soon take some of our winnings off of the table. From the CVS perspective, our Target Price is now $127. A union as presently planned would, according to management, offer low- to mid-single digit earnings accretion in the second full year after the close of the transaction, including the ability to deliver $750 million in near-term synergies. Either as a merged entity or a stand-alone company, we continue to think CVS is significantly undervalued.

The battle for **Qualcomm** (QCOM – $64.24) intensified last week after Broadcom announced that it intends to nominate 11 "independent, highly qualified" candidates to sit on the Board of Directors of the wireless communications equipment company. While QCOM's share price has retreated from the high of $68.91 on November 24, the stock still trades well above the pre-rumor price, indicating that Broadcom's advances are still being taken seriously by the market.

In its press release, Broadcom said, "On November 6, 2017, Broadcom proposed to acquire all of the outstanding shares of Qualcomm for per share consideration of $70.00 in cash and stock, consisting of $60.00 in cash and $10.00 in Broadcom shares. The Broadcom proposal stands whether Qualcomm's pending acquisition of NXP Semiconductors N.V. ("NXP") is consummated on the currently disclosed terms of $110 per NXP share or is terminated."

Despite being rebuffed by Qualcomm's current board, Hock Tan, CEO of Broadcom, remains undeterred, "We have heard from many Qualcomm stockholders who have expressed their desire for Qualcomm to engage with us. We also continue to receive positive feedback from customers and, having had initial meetings with certain relevant antitrust authorities, remain confident that any regulatory requirements necessary to complete a combination will be met in a timely manner. Although we are taking this step [to replace the board], it remains our strong preference to engage in a constructive dialogue with Qualcomm. We have repeatedly attempted to engage with Qualcomm, and despite stockholder and customer support for the transaction, Qualcomm has ignored those opportunities. The nominations give Qualcomm stockholders an opportunity to voice their disappointment with Qualcomm's directors and their refusal to engage in discussions with us. In light of the significant value our proposal provides for Qualcomm stockholders, we believe Qualcomm stockholders would be better served by new independent, highly qualified nominees who are committed to maximizing value and acting in the best interests of Qualcomm stockholders."

The Qualcomm brass remain adamant that the offer is insufficient, “Qualcomm is exceptionally well positioned – with technology and leadership positions across mobile, IoT, Automotive, edge computing and networking – and leading the transition to 5G. Qualcomm stockholders are poised to participate in substantial growth and value creation as the company continues to execute its strategy across its businesses.”

The response continued, “Broadcom and Silver Lake are effectively asking stockholders to foreclose options and make a decision now on a non-binding proposed transaction which could not be completed for well over a year, if ever, given the magnitude of regulatory issues, the absence of commitments by Broadcom to resolve those issues, Broadcom’s lack of committed financing, and the uncertainty surrounding its transition from Singapore to the United States. Qualcomm’s Board is composed of 11 world-class directors, 9 of whom are independent and 4 of whom have been added in the last 3 years, and all of whom are firmly committed to acting in the best interests of all Qualcomm stockholders. Qualcomm believes that this action is a blatant attempt to seize control of the Qualcomm Board in order to advance Broadcom’s acquisition agenda. These nominees are inherently conflicted given Broadcom’s desire to acquire Qualcomm in a manner that dramatically undervalues Qualcomm to Broadcom’s benefit.”

While the public battle makes for quite a spectacle, we think that Qualcomm’s rejection of the offer on the grounds that it “dramatically undervalues” QCOM makes sense. Indeed, our own Target Price is $71, but this includes a discount related to the ongoing licensing battles with Apple and others, as well as for uncertainty related to the NXP acquisition. On the topic of NXP, we are pleased that the deal remains on track and has been collecting regulatory approvals. At this point, we think that standalone-Qualcomm (or QCOM + NXP) is the best choice for QCOM shareholders given the offer currently on the table. Now, if Broadcom were to raise its bid, and address some of the regulatory issues associated therewith, we might think differently.

Shares of **American Eagle Outfitters** (AEO – $17.23) jumped more than 10% last week following the apparel retailer’s quarterly results that showed a 3% increase in its same store comparable sales, growth in digital sales, strength outside of its jeans business and a forecast for a solid Q4. The favorable market action came even as Q3 EPS of $0.37 was slightly below expectations. Of course American Eagle jeans set a record for volume in the third quarter, and all of the men’s and women’s bottoms categories posted the best third-quarter results ever, while the quarter also saw increased strength in men’s business, tops and accessories, and Aerie, the company’s lingerie line (which reported its 14th consecutive positive same-store sales result).

AEO CEO Jay Schottenstein commented, “The third quarter produced record sales, sequential margin improvement and marked eleven straight quarters of comp sales growth. Digital sales continued to grow at a rapid pace, while we also saw store sales strengthen. These results validate our investments in product leadership, innovation, quality and brand equity. I’m very pleased to see strong momentum continue into the fourth quarter, positioning us well for the next few critical weeks of the holiday season.”

Looking ahead, AEO said that it anticipates comparable store sales increase in the mid-single digits for Q4 with adjusted EPS in the range of $0.42 to $0.44. This guidance excludes potential asset impairment and restructuring charges. Last year's fourth quarter reported adjusted EPS of $0.39.

While the retail environment continues to rapidly change and fashion trends are always very fickle, we continue to like that the AEO balance sheet carries no long-term debt (though there are lease obligations) and that its investment in an online sales presence is paying off. We continue to believe that the company is doing the right things to drive traffic and remain popular and relevant with younger consumers, always a tough demographic. AEO currently trades at a bit above 14 times forward earnings estimates and offers a 2.9% dividend yield. We understand that mall-based retailers are likely to continue to face stiff operating headwinds, but given the continued operational progress, we have boosted our Target Price for AEO to $19.