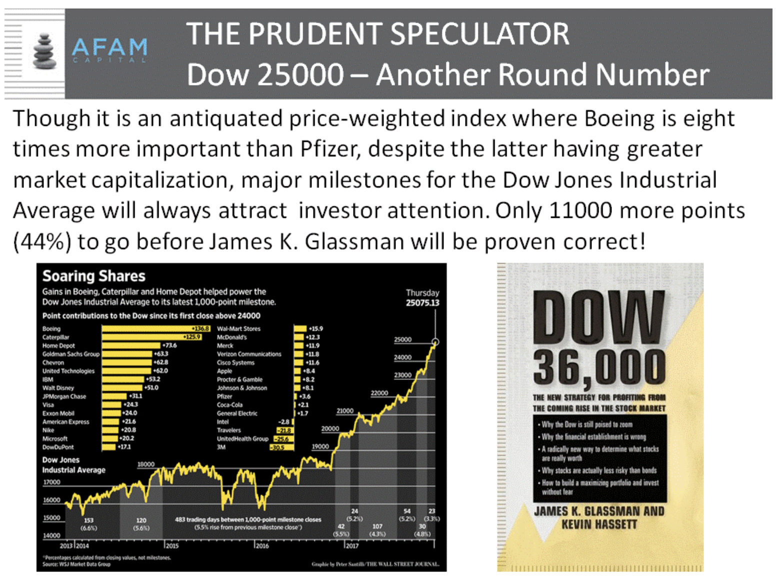
MARKET COMMENTARY MONDAY, JANUARY 8, 2018

EXECUTIVE SUMMARY

Happy New Year! - Best First Week Since 2006
Dow 25000 - Still Holding BA and CAT
Returns Race - Growth Off to A Fast Start
The Case for Value Part 1 - Returns Since 1927 and Since 2000
The Case for Value Part 2 - Rising Interest & Inflation Rates
The Case for Value Part 3 - Relative Metrics
The Case for Value Part 4 - Super Bullish AAII Sentiment
Company News - Updates on INTC, AGU/NTR & WBA

Market Review

Happy New Year, indeed! 2018 is off to a terrific start as the Nasdaq Composite Index and Dow Jones Industrial Average turned in their best first week in twelve years, with the Dow eclipsing the 25000 mark for the first time, a little more than one month after busting through 24000.



Happily, we own the top two Dow performers over the last 1000 point move, with **Boeing** (BA - $308.84) and **Caterpillar** (CAT - $161.96) both rallying on Friday to highs above our previously published Target Prices. For the time being, we are continuing to hold each, having raised our fair valuation assessment for the commercial aviation and defense concern to $322 and for the maker of construction equipment to $167.

Shares of Boeing surged anew after the company reportedly reached a deal to buy Brazilian aircraft maker Embraer for $28 per share. The agreement, which has not been signed by either party, is expected to receive heavy regulatory scrutiny from the Brazilian government. The companies, via a December 21 press release, confirmed the talks, jointly stating, “The Boeing Company and Embraer confirmed the two companies are engaged in discussions regarding a potential combination, the basis of which remains under discussion…Any transaction would be subject to the approval of the Brazilian government and regulators, the two companies' boards and Embraer's shareholders."

With strong competition in the small regional aircraft space between Mitsubishi, Sukhoi, Bombardier and Embraer, and no choices for BA customers to buy in-house models, we think a deal has potential benefits for BA. However, we aren't hanging our hat on any specific outcome just yet, as we think that the Brazilian government, which is a majority Embraer stakeholder, might play a significant role in the direction of the negotiations. Of course, we are pleased with Boeing's massive existing aircraft order book, while we like the defense side of the business, given the state of affairs around the world, and it doesn't hurt that the company's effective tax rate the last two quarters was 29% to 30%.

We are keeping close watch on Caterpillar, but we are still comfortable with our position in the stock, given the improving global economic outlook, the rise in commodity prices, the potential for increased infrastructure spending and the company's low effective tax rate. We also heard last week from the Commerce Department that construction spending in the U.S. rose 0.8% in November, better than the 0.6% projection.

Earnings for CAT are likely to soar over the next few years, with current consensus EPS estimates for 2017, 2018 and 2019 standing at $6.46, $7.95 and $9.26, respectively, up from $3.26 in 2016. Of course, we understand that Caterpillar is a cyclical company with the time to sell often when conditions look great and the time to buy when the future looks bleak, so our grip on the shares won't stay tight forever.

Though they were definitely on the Value side of the ledger when we initially recommended BA at $118.18 less than two years ago and CAT at $69.52 just prior to the Financial Crisis, it is not easy to call either a Value stock today, given that the former is trading at 32 times trailing earnings and the latter at a current P/E of 29. Still, given that the overall metrics on our newsletter portfolios remain much more reasonable than many of the Value indexes,…

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THE PRUDENT SPECULATOR
Newsletter Portfolio Metrics

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	17.3	14.7	1.2	2.0	2.5
Buckingham	17.8	15.1	1.2	2.0	2.4
Milennium	18.3	15.1	1.3	2.0	2.4
PruFolio	18.1	15.2	1.2	2.1	2.3
Russell 3000	24.7	19.4	2.1	3.2	1.8
Russell 3000 Growth	29.6	22.5	2.9	6.7	1.2
Russell 3000 Value	21.1	16.9	1.7	2.1	2.3
Russell 2000	57.7	26.4	1.3	2.4	1.3
Russell 2000 Growth	105.4	34.9	1.7	4.5	0.7
Russell 2000 Value	38.7	20.9	1.0	1.6	2.0
Russell 1000	23.6	19.0	2.2	3.3	1.8
Russell 1000 Growth	27.9	21.9	3.0	6.9	1.3
Russell 1000 Value	20.3	16.7	1.8	2.2	2.4
S&P 500 Index	23.0	18.7	2.3	3.4	1.8
S&P 500 Growth Index	26.8	21.2	3.7	6.0	1.3
S&P 500 Value Index	20.0	16.6	1.6	2.3	2.4
S&P 500 Pure Value Index	16.0	13.0	0.7	1.5	3.1

As of 01.06.18. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Al Frank using data from Bloomberg

…we like the balance the duo offer our other much less expensive portfolio holdings, while we think that upside remains, especially in a market that has been fixated on Growth.

Alas, though our newsletter portfolios managed excellent gains north of 2.3%, the Value indexes brought up the rear again over the first four trading days of 2018…

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Value vs. Growth Returns

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since Fed Liftoff %	Bloomberg Symbol	Index
2.37	28.11	16.50	50.00	INDU Index	Dow Jones Industrial Average
3.40	29.73	8.97	44.41	CCMP Index	NASDAQ Composite Index
2.53	21.68	12.04	38.03	RIY Index	Russell 1000 Index
1.61	14.63	21.28	39.78	RTY Index	Russell 2000 Index
2.46	21.12	12.72	38.16	RAY Index	Russell 3000 Index
2.63	21.82	11.95	38.10	SPX Index	S&P 500 Index
3.31	30.21	7.07	41.99	RLG Index	Russell 1000 Growth Index
1.74	13.64	17.33	34.19	RLV Index	Russell 1000 Value Index
1.99	22.14	11.28	36.90	RUO Index	Russell 2000 Growth Index
1.19	7.82	31.72	42.53	RUJ Index	Russell 2000 Value Index
3.21	29.58	7.38	41.60	RAG Index	Russell 3000 Growth Index
1.70	13.17	18.38	34.81	RAV Index	Russell 3000 Value Index
3.25	27.43	6.89	38.41	SGX Index	S&P 500 Growth Index
1.98	15.35	17.39	36.59	SVX Index	S&P 500 Value Index
3.74	26.76	4.22	34.77	SPXPG Index	S&P 500 Pure Growth Index
2.21	17.73	19.62	42.85	SPXPV Index	S&P 500 Pure Value Index

Source: Bloomberg. As of 1.5.18. Fed Liftoff was December 16, 2015.

It is tough to complain about outsize returns even as Value's recent struggles relative to Growth have continued into 2018. Of course, the returns race is closer since the Federal Reserve initiated "Liftoff" 25 months ago and history shows that Value often performs well in rising interest rate environments.

…begging the question of when, and even if, we will see Value outperform again.

No doubt, it is much easier today (newsletter portfolio returns were north of 17% in 2017) to keep the faith that our way of investing is the best path to long-term success…

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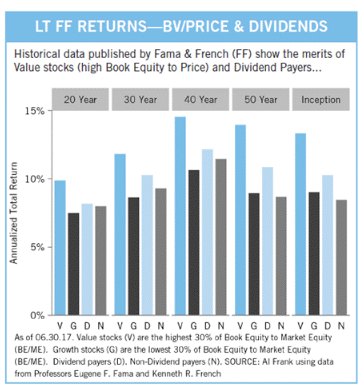
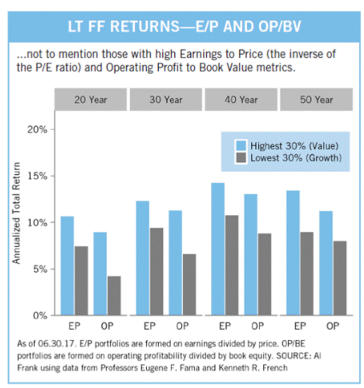
THE PRUDENT SPECULATOR
Historical Evidence – Long Term

Inexpensive stocks, generally no matter how the valuation metrics are sliced and diced, have produced the best long-term returns...





…than it was back in the late 90's, the last and only other time that Value has lagged in the ten-year returns race. After all, TPS Portfolio returned 1.6% in 1998, versus a 28.6% return for the

S&P 500, while the newsletter trailed the S&P return by more than five full percentage points in 1999.

We did not waver back then in our belief that our broadly diversified portfolios of undervalued stocks would prove to be rewarding in the fullness of time, so we certainly have no reason to change our tune today, especially considering that big Info Tech companies Alphabet (aka Google) with a two-class-combined 70 basis point contribution to total return, Facebook (62 bps) and Visa (30 bps), as well as Consumer Discretionary titan Amazon (72 bps), accounted for most, if not all, of our return gap in 2017 versus the Russell 3000 index.

That said, we understand that we always will be judged against a benchmark, but the Value of our service often lies more in our ability to keep investors on track to achieving their long-term objectives. It doesn't matter how well our stocks or the indexes perform if an account is sitting in cash. In fact, few come close to equaling long-term index returns as they move in and out of equities, often at the wrong time.

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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

Not surprisingly, the winner in the returns race varies from year to year – Value won in 2016 – and we hope that perspective can be had by considering that Value has convincingly won the long-term performance derby by a wide margin. More importantly, perhaps, given concerns about elevated stock market valuations today, we like how Value has performed since the last Growth stock peak…

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Value vs. Growth Long-Term Returns

Year-by-Year Russell Returns

Year	Russell 3000 Value	Russell 3000 Growth	Russell 3000 Index
2017	13.17	29.58	21.12
2016	18.38	7.38	12.72
2015	-4.14	5.09	0.47
2014	12.69	12.44	12.55
2013	32.72	34.22	33.57
2012	17.55	15.21	16.42
2011	-0.10	2.18	1.03
2010	16.22	17.62	16.92
2009	19.71	36.95	28.29
2008	-36.27	-38.46	-37.32
2007	-1.05	11.50	5.17
2006	22.32	9.42	15.68
2005	6.82	5.15	6.10
2004	16.93	6.91	11.94
2003	31.10	30.97	31.04
2002	-15.19	-28.02	-21.54
2001	-4.32	-19.61	-11.44
2000	8.04	-22.42	-7.30
Annualized	7.18	4.15	5.86

Source: Bloomberg and FTSE Russell.

Value doesn't always win the short-term battles, as the trouncing inflicted by Growth this year attests, but it has handily won the long-term wars since both 1999 and 1927.

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

…with some suggesting that current investor infatuation with high-flying tech names looks a lot like what was happening right before the air began to come out of the Tech Bubble in the year 2000.

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NASDAQ Composite: 2000 Edition

The tech stocks that dominated the NASDAQ Composite Index back in 2000 were hardly inexpensive from a fundamental standpoint.

NASDAQ Composite Index: Top 10 Holdings Mar 2000

Company	Weighting Percentage	Price to Earnings	Price to Sales	Price to Book Value	Dividend Yield
Microsoft	8.0	56.2	21.1	13.1	-
Cisco Systems	7.2	200.4	37.3	29.0	-
Intel	6.2	51.0	13.4	12.1	0.1
Oracle	3.7	152.7	24.7	59.8	-
Sun Micro	2.4	122.7	11.6	28.6	-
MCI Worldcom	2.1	34.5	3.5	2.5	-
Dell	2.0	72.4	5.0	24.2	-
Yahoo	1.5	666.4	161.1	78.2	-
Qualcomm	1.3	159.5	18.9	24.1	-
Applied Materials	1.1	94.7	16.1	15.5	-
Averages:	3.6	161.1	31.3	28.7	0.0
Medians:	2.3	108.7	17.5	24.2	-

Source: Al Frank using Bloomberg and The New York Times

Obviously, we would love to see a repeat of the massive outperformance of Value over Growth in the years that followed March 2000…

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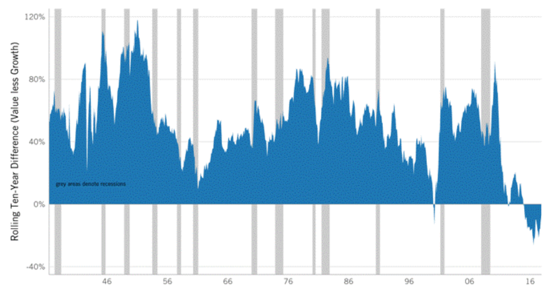
We Can Hope Now is Like March 2000

Rolling 10-Year Value Less Growth Total Return



From 06.30.26 through 11.30.17. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

10-Year Total Return March 2000 – March 2010

Range 03/31/2000 - 03/31/2010 Period Daily No. of Period 3652 Day(s) Table

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	RAG Index	USD	-40.31%	-33.60%	-74.99%	-4.01%
2)	RAV Index	USD	10.46%	41.38%	--	3.52%
3)	RAY Index	USD	-16.75%	-.66%	-42.04%	-.07%
4)	SPX Index	USD	-21.96%	-6.33%	-47.71%	-.65%
5)	INDU Index	USD	-.60%	25.25%	-16.13%	2.28%
6)	VALUX US Equity	USD	41.97%	82.28%	40.89%	6.18%

Past performance is no guarantee of future returns, but we very much like what transpired over the ensuing decade the one previous time (following March 2000) that Growth Stocks outperformed Value over a ten-year time span.

…even as we understand that multiples are nowhere near as outrageous today as they were back then.

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NASDAQ Composite: 2018 Edition

There are still several expensive names in today's NASDAQ, but we actually find six of the top ten stocks to be undervalued.

NASDAQ Composite Index: Top 10 Holdings Jan 2018

Company	Weighting Percentage	Price to Earnings	Price to Sales	Price to Book Value	Dividend Yield
Apple	8.3	18.4	3.9	6.5	1.5
Alphabet	6.5	31.2	7.0	4.7	
Microsoft	6.3	31.9	7.0	7.4	1.9
Amazon	5.1	296.3	3.5	22.9	
Facebook	4.0	34.2	14.0	7.2	
Intel	2.1	13.8	3.5	3.0	2.3
Cisco Systems	1.8	18.4	4.0	2.9	3.0
Comcast	1.8	19.9	2.3	3.4	1.5
Amgen	1.2	14.3	5.6	3.9	2.7
Nvidia	1.1	49.3	12.6	18.5	0.3
Averages:	3.8	52.8	2.5	8.0	1.9
Medians:	3.0	25.6	4.8	5.6	1.9

Source: Al Frank using Bloomberg and The Wall Street Journal

Of course, we like that periods of rising interest rates (the Fed raised the Fed Funds rate again last month)…

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THE PRUDENT SPECULATOR
Δ in 10-Year & Value/Growth, Small/Large

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Small	Large
Less than 4.675%	377	14.7%	11.2%	16.9%	9.9%
More than 4.675%	379	14.4%	8.3%	10.1%	11.2%
3-Month Drop	354	17.4%	11.6%	15.5%	11.7%
3-Month Rise	398	12.3%	8.2%	11.7%	9.6%
6-Month Drop	342	16.6%	11.9%	15.2%	11.9%
6-Month Rise	404	12.9%	7.8%	12.0%	9.3%
12-Month Drop	345	14.6%	10.7%	13.2%	10.7%
12-Month Rise	389	14.2%	8.5%	13.3%	10.1%

From 07.31.54 through 08.31.17. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Bloomberg and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.03%	542	12.5%	10.0%	11.5%	10.3%
More than 4.03%	541	14.1%	8.2%	12.6%	9.3%
3-Month Drop	515	15.8%	12.7%	15.7%	11.9%
3-Month Rise	553	11.1%	5.7%	8.8%	7.8%
6-Month Drop	518	15.2%	11.9%	15.4%	11.3%
6-Month Rise	547	11.5%	6.2%	8.8%	8.1%
12-Month Drop	530	12.9%	10.2%	13.5%	10.0%
12-Month Rise	529	13.4%	7.4%	10.3%	9.0%

From 06.30.27 through 08.31.17. Subsequent 12-month return. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising rates will prove fatal for equities, but nine decades of returns data show that stocks in general, whether Small-Cap or Large-Cap, have performed admirably both concurrent with and subsequent to increases in the yield on the 10-Year Treasury, with Value stocks really asserting their dominance.

…and inflation rates historically have been quite favorable for the kind of Value-priced stocks that we have long favored on an absolute and, especially, on a relative basis.

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THE PRUDENT SPECULATOR
Δ in Inflation & Value/Growth

Concurrent Stock Performance & Change in Inflation Rate

	Count	Value	Growth	Small	Large
Less than 2.7%	545	15.2%	13.3%	16.0%	12.6%
More than 2.7%	530	11.4%	5.0%	8.1%	7.0%
3-Month Drop	587	15.4%	12.3%	14.8%	12.3%
3-Month Rise	484	10.9%	5.4%	8.8%	6.8%
6-Month Drop	561	16.2%	12.4%	15.6%	12.3%
6-Month Rise	504	10.1%	5.5%	8.1%	7.0%
12-Month Drop	544	14.5%	10.1%	12.8%	11.1%
12-Month Rise	509	12.0%	7.7%	11.1%	8.2%

From 12.31.27 through 08.31.17. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Bloomberg and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance. & Change in Inflation Rate

	Count	Value	Growth	Small	Large
Less than 2.7%	547	11.5%	9.5%	11.1%	9.7%
More than 2.7%	530	15.0%	8.4%	12.9%	9.6%
3-Month Drop	585	14.5%	9.7%	13.2%	10.6%
3-Month Rise	477	11.6%	7.8%	10.4%	8.3%
6-Month Drop	561	14.8%	9.6%	13.1%	10.9%
6-Month Rise	498	11.3%	8.0%	10.6%	8.0%
12-Month Drop	544	15.3%	10.0%	13.5%	11.5%
12-Month Rise	509	11.0%	7.5%	10.5%	7.2%

From 12.31.27 through 08.31.17. Subsequent 12-month return. SOURCE: Al Frank using data from Bloomberg and Professors Eugene F. Fama and Kenneth R. French

A stronger economy and tax cuts have some folks thinking that inflation will pick up in 2018 and beyond…which is fine by us. After all, Value stocks, on average, have seen a sizable return advantage over Growth, both concurrent with and subsequent to an increase in the inflation rate, with the performance gap widest when inflation is higher.

None of the above is meant to be a guarantee that Value will again have its day in the sun, though we might add that Value stocks are generally higher tax payers, but we remain confident that our style of investing, which should resonate logically with folks who generally hunt for bargains in their everyday lives, will continue to be fruitful.

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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	**15.86**
Investment Reporter, The	**12.86**
Fidelity Monitor & Insight	**12.27**
Turnaround Letter, The	**12.02**
Investment Quality Trends	**11.98**
NoLoad FundX	**11.69**
Bob Brinker's Marketimer	**11.06**
PaulMerriman.com	**7.27**
S&P 500 Total Return	**10.70**

As of 12.31.17. Source: http://hulbertratings.com/30-year-scoreboard/

And we would argue that the Price to Book Value comparison between the Russell 3000 Value and Growth indexes makes a strong case that it may be time for Value to reassert its historical dominance,…

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THE PRUDENT SPECULATOR
Time for Value?

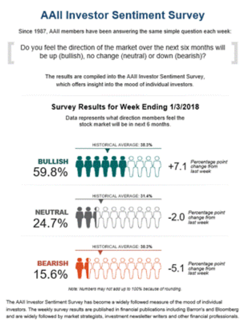
Believe it or not, despite the major market averages residing near record highs, Value stocks (as represented by the Russell 3000 Value index) trade at a lower-than-normal (over the past 22 years) price to book value ratio AND the valuation gap with Growth stocks (Russell 3000 Growth index) is as wide today as it has been since 2000.

From 05.31.95 through 12.29.17. SOURCE: Al Frank using data from Bloomberg

…while the latest excessively bullish sentiment numbers from the American Association of Individual Investors, which would suggest that returns for stocks in the near term are likely to be subdued,…

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…at least on the "others are fearful" argument. Of course, the latest +44.2 reading, one of the highest ever, argues for a little near-term caution.



AAII Bull-Bear Spread

Decile	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								
BELOW MEDIAN	-54.0	8.5	808	1.2%	1.0%	3.2%	2.8%	6.4%	5.6%
ABOVE MEDIAN	8.5	62.9	779	0.5%	0.4%	2.1%	1.8%	4.6%	4.2%
	Ten Equal Groupings of 1517 Data Points								
1	-54.0	-14.3	159	1.2%	1.0%	4.0%	3.4%	8.0%	6.6%
2	-14.3	-7.0	163	1.3%	1.2%	4.0%	3.6%	7.4%	6.8%
3	-6.8	-1.0	157	1.7%	1.6%	3.3%	2.9%	6.7%	5.9%
4	-0.7	3.4	156	1.1%	1.0%	2.4%	2.1%	5.6%	5.1%
5	3.4	8.0	162	0.5%	0.4%	2.4%	2.2%	4.8%	4.2%
6	8.1	12.8	155	0.3%	0.3%	1.5%	1.2%	4.5%	4.0%
7	12.8	17.0	163	1.0%	0.9%	2.9%	2.7%	6.1%	5.7%
8	17.0	22.7	154	0.8%	0.7%	2.2%	2.0%	5.5%	5.0%
9	22.9	30.8	159	0.3%	0.2%	2.3%	2.0%	4.7%	4.1%
10	30.8	61.7	158	0.1%	0.0%	1.2%	1.0%	2.1%	1.7%

From 07.30.87 through 01.05.18. Unannualized. SOURCE: Al Frank using data from American Association of Individual Investors and Bloomberg

…also add to the case for Value.

THE PRUDENT SPECULATOR
AAII – Another Reason to Favor Value

Equities have enjoyed gains just about every way the historical market data is sliced and diced, but the latest extreme +44.2 AAII Bull-Bear Sentiment reading is one of the rare conditions that has led to negative returns, on average, one, three and six months out…for Growth Stocks. The dreaded decile 10 has still been solidly positive for Value, with a very wide six-month gap vs. Growth.

AAII Bull-Bear Spread & Russell 3000 Value Returns

Decile	Low Reading of the Range	High Reading of the Range	Count	R3KV Next 1-Month Arithmetic Average TR	R3KV Next 1-Month Geometric Average TR	R3KV Next 3-Month Arithmetic Average TR	R3KV Next 3-Month Geometric Average TR	R3KV Next 6-Month Arithmetic Average TR	R3KV Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.5								
BELOW MEDIAN	-54.0	8.5	808	0.9%	0.8%	2.7%	2.3%	5.8%	5.0%
ABOVE MEDIAN	8.5	62.9	779	0.8%	0.7%	2.6%	2.4%	5.3%	4.9%
	Ten Equal Groupings of 1517 Data Points								
1	-54.0	-14.3	159	0.6%	0.4%	3.1%	2.5%	6.8%	5.4%
2	-14.3	-7.0	163	1.2%	1.1%	3.7%	3.4%	7.0%	6.4%
3	-6.8	-1.0	157	1.5%	1.4%	2.9%	2.5%	6.2%	5.4%
4	-0.7	3.4	156	0.9%	0.8%	2.2%	1.9%	5.1%	4.7%
5	3.4	8.0	162	0.4%	0.3%	1.9%	1.6%	4.0%	3.4%
6	8.1	12.8	155	0.5%	0.4%	1.5%	1.3%	4.2%	3.6%
7	12.8	17.0	163	1.1%	1.1%	3.1%	2.9%	6.0%	5.6%
8	17.0	22.7	154	0.9%	0.8%	2.3%	2.1%	5.6%	5.1%
9	22.9	30.8	159	0.7%	0.6%	2.9%	2.7%	5.6%	5.1%
10	30.8	61.7	158	0.7%	0.7%	2.6%	2.4%	4.8%	4.5%

From 07.30.87 through 01.05.18. Unannualized. SOURCE: Al Frank using data from American Association of Individual Investors and Bloomberg

AAII Bull-Bear Spread & Russell 3000 Growth Returns

Decile	Low Reading of the Range	High Reading of the Range	Count	R3KG Next 1-Month Arithmetic Average TR	R3KG Next 1-Month Geometric Average TR	R3KG Next 3-Month Arithmetic Average TR	R3KG Next 3-Month Geometric Average TR	R3KG Next 6-Month Arithmetic Average TR	R3KG Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.5								
BELOW MEDIAN	-54.0	8.5	808	1.1%	1.0%	3.4%	3.0%	6.8%	6.0%
ABOVE MEDIAN	8.5	62.9	779	0.5%	0.4%	1.7%	1.3%	4.0%	3.2%
	Ten Equal Groupings of 1517 Data Points								
1	-54.0	-14.3	159	1.0%	0.7%	3.8%	3.1%	8.3%	6.8%
2	-14.3	-7.0	163	1.3%	1.1%	4.0%	3.6%	8.0%	7.3%
3	-6.8	-1.0	157	1.6%	1.5%	3.8%	3.3%	6.8%	6.0%
4	-0.7	3.4	156	1.2%	1.1%	2.8%	2.4%	6.2%	5.6%
5	3.4	8.0	162	0.7%	0.5%	3.0%	2.6%	5.3%	4.6%
6	8.1	12.8	155	0.3%	0.1%	1.4%	1.1%	4.5%	3.8%
7	12.8	17.0	163	1.2%	1.1%	3.0%	2.7%	6.5%	6.0%
8	17.0	22.7	154	1.0%	0.9%	2.5%	2.1%	5.6%	4.9%
9	22.9	30.8	159	0.2%	0.1%	1.5%	1.1%	3.6%	2.7%
10	30.8	61.7	158	-0.2%	-0.3%	-0.1%	-0.5%	-0.3%	-1.3%

From 07.30.87 through 01.05.18. Unannualized. SOURCE: Al Frank using data from American Association of Individual Investors and Bloomberg

Stock Updates

Chris Quigley takes a look at market-moving developments at three of our companies…

Researchers reported the discovery of two major vulnerabilities in **Intel** (INTC - $44.74) chips this past week, sending shares sharply lower (though the stock recovered somewhat and finished the week down 3.2%) and leaving the chip-making giant and other computer manufacturers scrambling to respond. The first vulnerability, Meltdown, was discovered independently by researchers from the TU Graz (Technical University of Graz in Austria), Cerberus Security (a German security firm) and Project Zero (Google). Meltdown is a hardware vulnerability that allows a rogue process to read any part of the processor's mapped memory, regardless of permissions. The second, Spectre, was independently discovered by Project Zero and independent researcher Paul Kocher. Spectre, like Meltdown, allows rogue processes to violate hardware security boundaries and with the added problem that the vulnerability extends to smartphones. It is believed that Meltdown can be mostly patched with software updates, while Spectre might turn out to be impossible to patch (i.e. a new processor would be the only fix). The researchers have a website with details and a Q&A section here: https://meltdownattack.com/.

Intel responded via press release, "Intel and other technology companies have been made aware of new security research describing software analysis methods that, when used for malicious purposes, have the potential to improperly gather sensitive data from computing devices that are operating as designed. Intel believes these exploits do not have the potential to corrupt, modify or delete data. Recent reports that these exploits are caused by a 'bug' or a 'flaw' and are unique to Intel products are incorrect. Based on the analysis to date, many types of computing devices — with many different vendors' processors and operating systems — are susceptible to these exploits. Intel is committed to product and customer security and is working closely with many other technology companies, including AMD, ARM Holdings and several operating system vendors, to develop an industry-wide approach to resolve this issue promptly and constructively."

While Intel's initial response broadly obfuscated the issues, finger-pointed at ARM and AMD as guilty parties too, and avoided any practical comparisons between Meltdown and Spectre, follow-up material, chiefly this white paper: https://newsroom.intel.com/wp-content/uploads/sites/11/2018/01/Intel-Analysis-of-Speculative-Execution-Side-Channels.pdf, explained more precisely the nature of the vulnerabilities and mitigation options. And both **Apple** (AAPL - $175.00) and **Qualcomm** (QCOM - $66.47) subsequently indicated that their devices and processors were also affected by Meltdown and Spectre.

Wall Street analysts had mixed responses to the revelations, with some vigorously defending INTC and others opting for a wait-and-see approach. We are in the latter camp. Interestingly, there were no analyst downgrades, though a few did slash price targets. We think that the vulnerabilities hit Intel harder than ARM and AMD because Intel makes more chips than those two firms, and that any sort of hardware recall requiring chip replacement could be extremely painful to the company. We think that a full hardware recall is a highly unlikely outcome (how do you recall almost all processors made in the last 10+ years?), with software or firmware (low-level software controls hardware components) fixes the most likely solution and easiest to deploy with very low cost. Indeed, many companies including **Microsoft** (MSFT - $88.19) and Apple have already released patches that mitigate risks. As such, we have opted to leave our Target Price of $51 unchanged and will update as necessary when information becomes available. Intel reports Q4 results on January 25.

Of course, many were up in arms over the revelation that Intel CEO Brian Krzanich sold most of his INTC stake late last year, even as the company was aware of the vulnerabilities. Certainly makes for interesting click-bait online…until one realizes that the shares were sold at prices ranging from $44.05 to $44.56 on November 29…versus the current $44.74 price. Not a big difference, we know, but if the assertion is that Mr. Krzanich should still be holding those shares and "suffering" with his fellow shareholders, I am sure he would gladly undo the trades and redo them at today's close, netting an extra $500,000 when all was said and done.

Agrium (AGU) and Potash Corp completed an all-stock merger over the holiday weekend, with shareholders receiving shares of the combined entity, **Nutrien** (NTR - $55.73), on January 2. Per the company, "As the world's largest provider of crop inputs and services, Nutrien plays a critical role in Feeding the Future by helping growers increase food production in a sustainable manner. With nearly 20,000 employees and operations and investments in 14 countries, Nutrien's crop inputs and services reach every major growing region of the world. Nutrien produces and distributes over 25 million tonnes of potash, nitrogen and phosphate products for agricultural, industrial and feed customers globally." Shareholders of Agrium received 2.23 shares of NTR for each common share held, while shareholders of Potash received 0.40 shares of NTR for each common share held.

"Today we are proud to launch Nutrien, a company that will forge a unique position within the agriculture industry," said Chuck Magro, President and CEO of Nutrien. "Our company will have an unmatched capability to respond to customer and market opportunities, focusing on innovation and growth across our retail and crop nutrient businesses. Importantly, we intend to draw upon the depth of our combined talent and best practices to build a new company that is stronger and better equipped to create value for all our stakeholders."

Nutrien noted multiple benefits to the merger. Operating Synergies are "expected to generate US$500-million of annual operating synergies, primarily from distribution and retail integration, production and SG&A optimization, and procurement savings. We expect to achieve approximately US$250-million of these synergies by the end of 2018 with the full annualized run-rate achieved by the end of 2019." In regard to Capital Allocation, NTR noted, "With major capacity expansion projects complete, expected proceeds from the divestiture of equity investments and significant cash flow generation capability, Nutrien will have flexibility to invest in focused growth initiatives and return excess capital to shareholders, while also prioritizing a strong investment grade credit rating profile."

Our Agrium shares have performed well since we first recommended them in July 2013, despite the choppy business environment for fertilizers, returning 58% including reinvested dividends (11.0% per annum), and we expect to continue to hold our Nutrien stake for the time being. While management offered some pro-forma data tidbits in the Nutrien Factbook (http://www.nutrien.com/sites/default/files/uploads/2018-01/Nutrien%20Fact%20Book%202018_low_res.pdf), the company expects to release a full set of financials for the blended company at the same time as the fourth quarter results are announced on February 5. Thus far, we know that, "Subject to market conditions and Nutrien Board approval, Nutrien expects to establish a dividend payment similar to the previous Agrium level of dividends, adjusted for the number of Nutrien shares outstanding," meaning that a guess for the annual dividend rate would be $1.57 or so, putting the yield at a very respectable estimated 2.8%. At present, our Target Price for NTR is $62.

Walgreen Boots Alliance's (WBA - $72.92) fiscal Q1 2018 results came in ahead of analyst estimates, with the company earning an adjusted $1.28 per share (vs. $1.27 est.) on revenue of

$30.7 billion (vs. $30.4 billion est.). WBA’s share buybacks propped up earnings per share (by reducing the share count) and pharmacy margins remained weak. Investors were unimpressed, sending shares from $75.09 at the close on Wednesday to as low as $70.73 on Thursday, without making much of a recovery by the closing bell. On Friday, however, investors collectively decided the 5% sell-off punishment didn’t fit the crime, and shares made up half of the losses, finishing the first trading week of 2018 no worse for the wear.

CEO George Fairweather commented on the results, “Overall in the quarter, we have delivered a strong business performance both in terms of adjusted profit and cash flow, which gives us a good foundation for what we expect to be a solid year. We are particularly pleased with continued growth in U.S. pharmacy volume and market share. We recognize, of course, that our GAAP numbers have been significantly impacted by some notable special items. We completed the $5 billion share buyback program announced in June plus the additional $1 billion expansion announced on our last earnings call. Of course, our other development was Rite Aid regulatory clearance in September. In October, we started to acquire our first stores. This has gone well and by the end of December, we have bought a total of 357 stores. Since the quarter end, we have announced our agreement to acquire a 40% minority stake in Guoda, a leading Chinese retail pharmacy chain with over 3,500 pharmacies across 70 cities. Although this transaction in the context of the group is relatively small, we believe it has significant potential for the future. We've also announced an agreement to reduce our investment in our wholesale partner, Guangzhou Pharmaceuticals Corporation, giving us a cash-on-cash return of 3.6 times. This will leave us with a 20% interest in this successful partnership. Both transactions are of course subject to regulatory approval and customary closing conditions.”

Management raised the bottom end of its full-year 2018 guidance from a range of $5.40 to $5.70 to a range of $5.45 to $5.70. Although Walgreen had to bow to U.S. regulatory pressure and only purchase a portion of Rite-Aid stores (2,186 of them, to be exact), we think that the added footprint will help the company reach a broader section of U.S. consumers and give WBA the opportunity to take the battle to its competitors. We also like the firm’s European footprint via its 2,822 Boots stores in the United Kingdom, Norway, Ireland, the Netherlands and Lithuania, while Mexico, Chile and Thailand account for an additional 1,900 international stores. Long-term, we believe WBA will benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations, and think that the AllianceRx mail service pharmacy partnership with Prime Therapeutics will be fruitful, especially as the FEP (Federal Employee Program) contract kicks in early this year. WBA generates solid free cash flow and we expect the dividend payout (the yield is currently 2.2%) to continue to rise. Our Target Price has been nudged up to $116.