the Prudent Speculator

MARKET COMMENTARY MONDAY, FEBRUARY 19, 2018

EXECUTIVE SUMMARY

Week #7 – A Terrific Rebound
Painful Lesson – Fund Investors Buy High and Sell Low
Secret to Success in Stocks – Nerves of Steel Supported by Reason and Evaluation
Patience – Lengthening the Measuring Stick
Share Buybacks – Record Announcements
Stock News – Updates on AMGN, CSCO, DLR, KIM, DE, SHPG, BIIB, AUY & AZSEY

Market Review

Your Editor has made it back from Australia, though the travel has left me under the weather, hence the lateness of the sending of this President's Day missive and our later-Monday posting of updated Target Prices. Happily, my spirits were boosted by the big turnaround in the equity markets last week.

Obviously, stocks could reverse course again as volatility has returned with a vengeance,…

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THE PRUDENT SPECULATOR
Volatility is Normal: Stocks Win the Race

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	107.6%	907	26	3.5	3/9/2009	1/26/2018
17.5%	67.4%	579	37	2.4	10/3/2011	1/26/2018
15.0%	67.1%	562	43	2.1	10/3/2011	1/26/2018
12.5%	44.0%	331	70	1.3	2/11/2016	1/26/2018
10.0%	35.2%	249	103	0.9	2/11/2016	1/26/2018
7.5%	23.4%	147	152	0.6	2/11/2016	1/26/2018
5.0%	14.7%	72	295	0.3	2/8/2018	2/16/2018

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.5	1/6/2009	3/9/2009
-17.5%	-30.6%	225	36	2.5	4/29/2011	10/3/2011
-15.0%	-28.5%	195	42	2.1	4/29/2011	10/3/2011
-12.5%	-22.7%	140	69	1.3	5/21/2015	2/11/2016
-10.0%	-19.2%	102	103	0.9	1/26/2018	2/8/2018
-7.5%	-15.4%	65	152	0.6	1/26/2018	2/8/2018
-5.0%	-10.9%	37	294	0.4	1/26/2018	2/8/2018

From 02.20.28 through 2.16.18. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Al Frank using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.4%	26.0%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	8.8%	29.6%
Long-Term Corporate Bonds	6.1%	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 12.31.17. 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

…but the major market averages enjoyed their best weekly returns in more than five years. Indeed, the S&P 500 gained 4.37%, while the Russell 3000 index advanced 4.40%. Growth again led the way, with the Russell 3000 Growth index jumping 4.79%, versus a 3.99% increase for the Russell 3000 Value index. Incredibly, as the chart above depicts, the S&P 500 has already recovered more than 5% from its low set just six trading sessions ago.

While we continue to assert that equities remain a very attractive asset class, given healthy corporate profits made stronger by tax cuts, an improving global economy and a still-very-low interest rate environment, not a whole lot changed last week to account for the rally. In fact, concerns about rising inflation, which received much of the blame for the plunge the week prior, were hardly alleviated when Uncle Sam reported that U.S. consumer prices rose a stronger-

than-expected 2.1% in January, and interest rates, another supposed worry, actually ticked up a few basis points.

Of course, we might argue that the real reason stocks soared was to complete the lesson begun the week prior in showing why the only problem with market timing is getting the timing right. Sadly, ETF and mutual fund investors, who had long been uninterested in domestic stocks as they marched steadily higher, finally decided to embrace U.S. equities in January…just in time for the markets to head sharply south, which caused them to run for the exits in record numbers…right before stocks rebounded strongly.

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THE PRUDENT SPECULATOR
The Only Problem with Market Timing…

While the move toward passive U.S. equity strategies has been massive over the past decade, data from the Investment Company Institute show that far more dollars have flowed out of domestic stock mutual funds/ETFs than have flowed in over the last three years. Foreign stocks and bonds have been the beneficiaries of the exodus, a trend that has continued in 2018.

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

Week Ended	2/7/2018	1/31/2018	1/24/2018	1/17/2018	1/10/2018
Total Equity	-34,177	12,468	23,393	11,873	17,580
Domestic	-37,003	4,533	12,909	1,719	3,838
World	2,826	7,935	10,483	10,154	13,742
Hybrid	-1,393	-180	100	-238	-150
Total Bond	7,269	9,193	15,123	9,261	18,919
Taxable	7,853	7,305	12,660	6,804	15,763
Municipal	-584	1,888	2,462	2,457	3,156
Commodity	939	386	1,412	45	-2
Total	-27,363	21,866	40,028	20,941	36,348

Source: Investment Company Institute

Investment Company Institute
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows
Millions, U.S. dollars

Period	Total LT MF and ETF	Equity			Hybrid	Bond			Commodity
		Total	Domestic	World		Total	Taxable	Municipal	
2015+2016+2017	736,895	207,386	-232,245	439,634	-97,258	611,742	532,119	79,621	15,020
2016+2017	621,912	105,922	-129,096	235,020	-78,936	582,021	521,142	60,877	12,903
2017	535,598	178,230	-59,613	237,845	-34,911	391,053	359,481	31,569	1,224

Note: Weekly fund flows are estimates based on reporting covering more than 98 percent of mutual fund and ETF assets, while actual monthly mutual fund net new cash flow and ETF net issuance data are collected and reported separately. Mutual fund data represent net new cash flow, which is new sales minus redemptions combined with net exchanges, while ETF data represent net issuance, which is gross issuance less gross redemptions. The primary difference is that net new cash flow excludes reinvested dividends and new issuance includes reinvested dividends. Data for mutual funds that invest primarily in other mutual funds and ETFs that invest primarily in other ETFs were excluded from the series.

'Twas ever thus, as our founder Al Frank liked to say. Unfortunately, so many forget that the secret to success in stocks is not to get scared out of them and nowadays far too many folks are braving the turbulent markets on their own…

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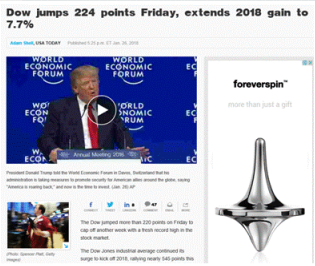
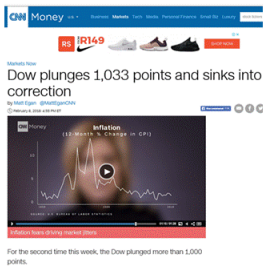
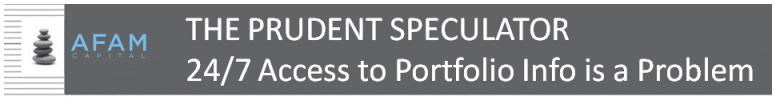
Investing is an Emotional Roller-Coaster

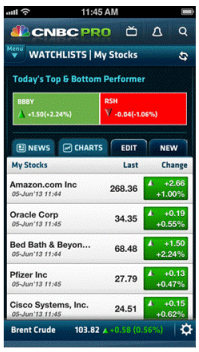




…with the constant media coverage and ability to monitor market activity and portfolio values on a tick-by-tick basis often proving to be too much for many folks to handle.

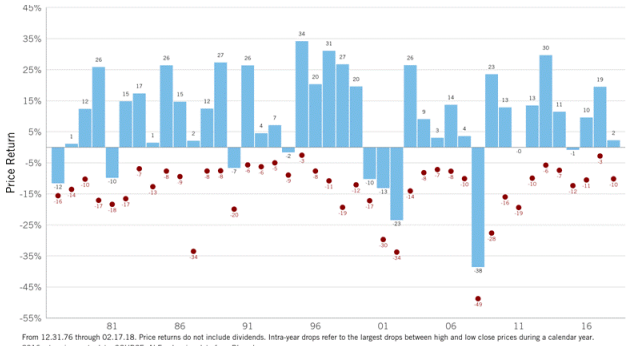


Myopic loss aversion is the combination of a greater sensitivity to losses than to gains and a tendency to evaluate outcomes frequently...The investors who got the most frequent feedback (and thus the most information) took the least risk and earned the least money.



True, we long have been credited with having nerves of steel, but the Vannevar Bush quotation provides the key to our courage, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation." No doubt, anything can happen going forward and we know that downturns are scary, but history shows that they are hardly unusual…

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 25 of the 41 years.



From 12.31.76 through 02.17.18. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2016 return is year to date. SOURCE: Al Frank using data from Bloomberg

…while lengthening the measuring stick (we are investing for the long-term, after all!) can make a tremendous difference,…

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The Longer the Hold, the Lower the Risk

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	685	401	63.1%
3 Months	739	345	68.2%
6 Months	773	308	71.5%
1 Year	797	278	74.1%
2 Year	895	168	84.2%
3 Year	922	129	87.7%
5 Year	925	102	90.1%
7 Year	969	34	96.6%
10 Year	933	34	96.5%
15 Year	907	0	100.0%
20 Year	847	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	687	399	63.3%
3 Months	752	332	69.4%
6 Months	781	300	72.2%
1 Year	809	266	75.3%
2 Year	901	162	84.8%
3 Year	892	159	84.9%
5 Year	941	86	91.6%
7 Year	961	42	95.8%
10 Year	932	35	96.4%
15 Year	907	0	100.0%
20 Year	847	0	100.0%

From 07.31.27 through 12.31.17. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

…as one would easily assume that bonds have been the risky asset class this year, if he or she looked only at their portfolio at the end of 2017 and today!

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Rising Rates are Bad for…Bonds

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since 10-Yr Yield Low (7.8.16) %	Bloomberg Symbol	Index
Stock Indexes					
2.37	28.11	16.50	44.60	INDU Index	Dow Jones Industrial Average
5.03	29.73	8.97	48.89	CCMP Index	NASDAQ Composite Index
2.31	21.68	12.04	32.36	RIY Index	Russell 1000 Index
0.64	14.63	21.28	33.90	RTY Index	Russell 2000 Index
2.18	21.12	12.72	32.48	RAY Index	Russell 3000 Index
2.45	21.82	11.95	32.51	SPX Index	S&P 500 Index
4.25	30.21	7.07	40.31	RLG Index	Russell 1000 Growth Index
0.33	13.64	17.33	24.66	RLV Index	Russell 1000 Value Index
2.07	22.14	11.28	37.18	RUO Index	Russell 2000 Growth Index
-0.88	7.82	31.72	30.51	RUJ Index	Russell 2000 Value Index
4.08	29.58	7.38	40.06	RAG Index	Russell 3000 Growth Index
0.24	13.17	18.38	25.10	RAV Index	Russell 3000 Value Index
4.73	27.43	6.89	37.60	SGX Index	S&P 500 Growth Index
0.06	15.35	17.39	26.27	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.07	3.57	0.79	-2.24	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.09	3.53	0.75	-2.31	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-0.76	8.17	0.82	11.38	PONAX Equity	Pimco Income Fund-A
-0.51	2.39	0.81	-0.19	VTABX Equity	Vanguard Total Intl Bnd-Adm
-1.90	3.10	0.76	-1.60	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-1.65	5.13	0.73	0.93	PTTRX Equity	Pimco Total Return Fund-Inst
-0.70	7.36	0.63	10.77	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.63	2.02	-0.01	0.83	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-1.33	4.53	0.21	-0.74	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.09	4.36	0.63	2.93	DODIX Equity	Dodge & Cox Income
-1.21	3.79	0.51	1.21	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.53	1.89	0.07	1.76	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 2.16.18. 10-Year Treasury Yield Low (1.38%) was July 8, 2016.

While Value strategies won the performance spoils by a wide margin in 2016, it has been an entirely different story since, as high-flying Growth stocks like Amazon, Facebook, Alphabet and Tesla captured the fancy of investors. Of course, given that the yield on the 10-Year U.S. Treasury has more than doubled since July 8, 2016, the "risk" in the financial markets has been in bonds, not stocks!

And, (per CNBC.com), "Since President Trump signed the tax bill, companies have announced $170.8 billion in stock buybacks, the most ever for this early in the year," those of us who are investing for the long haul should not be unhappy that Corporate America was likely taking advantage of the recent downturn in repurchasing more shares at the temporarily lower prices.

Alas, we wish one of those companies, our biotech giant **Amgen** (AMGN – $183.55), had decided NOT to choose a Dutch auction tender format for its $10 billion buyback offer, given that the stock traded below $175 for quite a bit of time in recent trading sessions. As shareholders are likely aware, Amgen has offered to purchase up to $10 billion of its shares at a cash purchase price not greater than $200 per share nor less than $175 per share. The offer expires early next month with most custodians having a cut-off later this week and holders who wish to take part needing to either accept whatever dollar figure is ultimately used for the

repurchase OR select a low price that they would accept in one-dollar increments between $175 and $200.

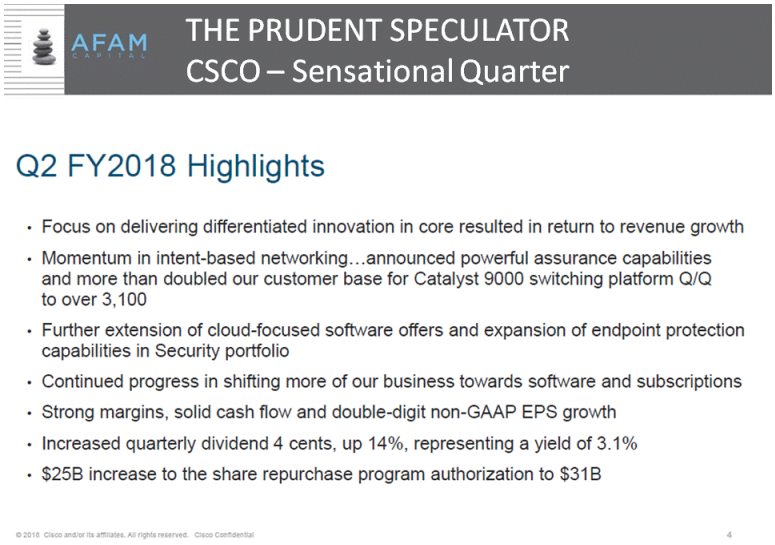
As our Target Price for AMGN is $223, we are NOT planning to participate in the offer as of this writing, especially as we suspect some folks may have selected a Dutch auction price below the current $183.55 quotation when the stock was trading much lower during the recent turbulence and many more may have decided they would take whatever the final price works out to be. That said, we do not rule out a change in our thinking if we become convinced that an arbitrage situation (tender and then buy back at a lower price) exists.

So, though we remain braced for additional downside in the equity markets in the near term, we see no reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of undervalued stocks.

Stock Updates

With Q4 earnings reports remaining very favorable (of the 398 S&P 500 companies that have reported results thus far, 74.9% have beaten expectations), Jason Clark and Chris Quigley offer updates on eight of our stocks in the news last week…

Communications equipment firm **Cisco Systems** (CSCO – $44.33) reported earnings per share of $0.63, versus the $0.59 estimate in fiscal Q2 2018. CSCO had sales of $11.9 billion (vs. $11.8 billion est.). Cisco's share price rose 5%, eclipsing $44 for the first time since 2000, as the company beat expectations as a result of strong performance from in-campus switching, applications and security. While the transition for CSCO to a subscription-based business had been arduous and frustrating for quite a few years, it seems that the investments are beginning to pay off.



CEO Chuck Robbins said, "We had a great quarter. In Q2, we returned to revenue growth. We continued to drive momentum in our intent-based networking portfolio and saw strength across the business. We made continued progress in shifting more of our business towards software and subscriptions. This performance led to strong margins, solid cash flow, and double digit non-GAAP EPS growth. We are clearly seeing the results of the strategy we've articulated to

you over the last ten quarters. We also increased the dividend and share repurchase authorization, reinforcing the confidence we have in our future."

Mr. Robbins added, "Customers are facing ever increasing complexity in their IT environments with the proliferation of devices in IoT, the adoption of multiple clouds, and the exponential growth of security threats. The network has never been more critical to business success because of its ability to simplify this complexity while enabling real-time informed business decisions. This is why Cisco is well position for the future as we help our customers move to highly secure and intelligent platforms for their digital businesses."

CFO Kelly Kramer said, "We close the acquisition of BroadSoft in early fiscal Q3, and the impact of the acquisition is factored into our guidance. We expect revenue growth in the range of 3% to 5% year-over-year. We anticipate the non-GAAP gross margin rate to be in the range of 63% to 64%. The non-GAAP operating margin rate is expected to be in the range of 29.5% to 30.5%, and the non-GAAP tax provision rate is expected to be 21%. Non-GAAP earnings per share is expected to range from $0.64 to $0.66."

Cisco also announced a $25 billion share repurchase program, raising the overall authorized amount to $31 billion (a repurchase of roughly 14% of the company's shares as of the close on Friday). CSCO expects to execute the repurchase over the next 18 to 24 months. We think Cisco's challenging transformation has put the company on a path to long-term success, and shareholders are beginning to see the benefits of those efforts. We continue to like the strong balance sheet with about $7 per share in net cash and believe that the stock still trades at a sizable discount with a forward 12-month P/E ratio of 16.5 and a 3.0% dividend yield. Our Target Price has been increased to $49.

Digital Realty Trust (DLR – $102.20) had adjusted FFO per share of $1.55 per share in fiscal Q4 2017 (vs. $1.51 est.). "We closed the year on solid footing, with total bookings of $56 million of annualized GAAP rental revenue in the fourth quarter of 2017, including a $6 million contribution from interconnection," said CEO William Stein. "We delivered consistent results throughout 2017, while strategically expanding our global platform to ensure we are uniquely well-positioned to capture a growing share of customer demand. Looking ahead to 2018, we see robust global demand driven by the second wave of cloud, particularly in our core major metropolitan areas around the world. The strength of our global, connected platform provides the framework for our expectation of delivering sustainable growth for our customers, shareholders and employees in 2018 and beyond."

The global technology real estate owner entered the Tokyo market last quarter (via a joint venture with Mitsubishi Corporation) in addition to its Osaka facility, and expects to see, "tremendous opportunity for growth over the next several years." And speaking of growth, Mr. Stein added, "The biggest change over the last 90 days has been tax reform. We expect minimal impact on our financials from the specific provisions of the Tax Reform bill. But we do believe it will be good for our customers' businesses and as a result it should bode well for data center demand. We saw very healthy growth from our customer base during the fourth quarter. The three leading cloud service providers each generated over $5 billion in cloud revenue during the fourth quarter alone, all growing at a very healthy clip well into the double digits. The top seven cloud providers all generated over $1 billion of cloud revenue in the fourth quarter. This broad-based growth plays directly to the strengths of our carrier-neutral cloud neutral platform. Just a few weeks ago, we announced that we will be offering private connections to the Oracle cloud in 14 major metros, and a total of59 data centers through our Service Exchange."

We think that the buildout of cloud infrastructure around the world creates growing demand for DLR's offerings, as major technology companies like Microsoft work to deploy their cloud-based applications and services. With its 185 data centers in 33 markets, DLR has enhanced metro area exposure, additional hyper-scale product offerings, cost synergies and external growth potential via a strong development pipeline. We like that the company has a broad customer base (more than 2,200 clients; IBM is the largest at 7.8% of aggregate annualized rent), expected 2018 FFO (a measure of real estate investment cash flow) of $6.52 per share and a solid 3.6% dividend yield. We remain fond of DLR, especially at the recently discounted quotation, and our Target Price has been nudged up to $130.

Shares of **Kimco Realty** (KIM – $15.20) bounced back quite a bit at the end of last week, reversing the recent downtrend that was due in large part to rising interest rates. The catalyst for the rebound was the REIT's report of Q4 FFO of $0.39 per share, versus expectations of $0.38, and its rental revenue for the quarter of $310.6 million that beat forecasts calling for $298.4 million. Kimco also announced that its full year 2018 FFO guidance was $1.42 to $1.46 per share.

While guidance came up short of consensus estimates of $1.49, investors were pleased that the company's board of directors approved a $300 million share repurchase program, which works out to approximately 4.6% of KIM's current market capitalization. KIM also announced that it would be looking to divest $700 million to $900 million of non-core assets, mostly in the Midwest and would put the net proceeds from these activities into redevelopments, new developments, reducing debt and/or buying back shares.

"We are pleased with the solid leasing spreads and positive operating results our team achieved in 2017. The strongest leasing activity in ten years raised our year-end occupancy to just shy of our all-time high, positioning us for continued success in 2018," stated CEO Conor Flynn. "As we move forward, we will continue to build on these results while also taking steps to strengthen our portfolio in the rapidly changing retail environment. Accelerating the divestiture of assets outside our core markets will allow us to concentrate our presence in target coastal markets, complete development projects underway and continue to invest in redevelopment, ultimately producing a stronger portfolio primed for sustained long-term growth."

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KIM – Diversified Tenant List

Top 25 Tenants as of December 31, 2017

				ABR			Leased GLA		
Rank	Tenant Name (1)	Credit Ratings (S&P / Moody's)	# of Locations	In Thousands	%	Avg ABR/SF	In Thousands	%	Avg GLA/Location (In Thousands)
1	TJX Companies (a)	A+/A2	113	$ 36,458	3.6%	$ 12.78	2,853	4.4%	25
2	Home Depot	A/A2	26	25,526	2.5%	10.35	2,465	3.8%	95
3	Ahold Delhaize USA (b)	BBB/Baa2	26	22,240	2.2%	15.28	1,455	2.2%	56
4	Bed Bath & Beyond (c)	BBB/Baa2	61	17,964	1.8%	12.68	1,416	2.2%	23
5	AB Acquisition LLC (Albertsons) (d)	B+/B1	40	17,958	1.8%	11.92	1,507	2.3%	38
6	Ross Stores	A-/A3	69	16,928	1.7%	12.32	1,374	2.1%	20
7	Petsmart	CCC+/B2	58	16,825	1.7%	16.60	1,014	1.6%	17
8	Kohl's	BBB-/Baa2	31	16,766	1.7%	7.54	2,225	3.4%	72
9	Wal-Mart (e)	AA/Aa2	22	16,760	1.7%	6.82	2,456	3.8%	112
10	Whole Foods	A+/Baa1	17	15,546	1.5%	24.03	647	1.0%	38
11	Burlington Stores, Inc.	BB/NR	25	13,565	1.4%	9.77	1,388	2.1%	56
12	The Michaels Companies, Inc.	BB-/Ba2	59	12,688	1.3%	13.21	960	1.5%	16
13	Petco	B-/B2	56	11,564	1.2%	18.93	611	0.9%	11
14	Best Buy	BBB-/Baa1	25	10,355	1.0%	13.87	746	1.1%	30
15	Dollar Tree	BB+/Ba1	91	10,242	1.0%	12.84	798	1.2%	9
16	Toys R Us (f)	D/NR	24	10,080	1.0%	11.14	905	1.4%	38
17	Costco	A+/A1	13	9,707	1.0%	7.74	1,253	1.9%	96
18	Office Depot	B/B1	40	9,224	0.9%	12.85	718	1.1%	18
19	The Gap (g)	BB+/Baa2	36	8,910	0.9%	20.23	440	0.7%	12
20	Kroger	BBB/Baa1	22	8,792	0.9%	8.37	1,051	1.6%	48
21	CVS Health Corp.	BBB+/Baa1	39	8,572	0.9%	21.27	403	0.6%	10
22	Hobby Lobby	NR/NR	20	8,475	0.8%	8.52	995	1.5%	50
23	Kmart/Sears Holdings (h)	CCC-/Caa3	16	8,453	0.8%	5.97	1,415	2.2%	88
24	Staples	B+/B1	29	8,316	0.8%	16.55	503	0.8%	17
25	Party City	B+/Ba3	48	8,133	0.8%	19.61	415	0.6%	9
Top 25 Tenants			1,006	$ 350,047	34.9%	$ 11.66	30,014	46.1%	30

While there is no doubt that the retail landscape continues to be challenging, and there are some struggling merchants on its tenant list, we like the steps management is taking to reshape Kimco. We also note that a portion of KIM's in-place leases are below current market rents, giving the company a potential source of organic growth moving forward, and lower levels of new shopping center supply should support operating performance. And, it is important to understand that the share price has been cut in half over the last 18 months, so a significant amount of bad news, some of which may not materialize, is "in the stock," which is part of the reason for the late-week rally on the earnings report. KIM currently yields 7.4% and trades at less than 11 times NTM FFO expectations. Our Target Price has been pared to $23, but we think the punishment the REIT has endured does not fit the crime.

Shares of **Deere & Co.** (DE – $169.44) jumped more than 9% last week, thanks in part to a positive reaction to the company's fiscal 2018 Q1 financial release, even as the agricultural and construction equipment maker missed investor expectations on both the top and bottom line. For the three month period, revenue came in at $5.97 billion, well below consensus forecasts of $6.41 billion. Deere also reported adjusted EPS of $1.31, slightly short of Wall Street estimates.

"Deere has continued to experience strong increases in demand for its products as conditions in key markets show further improvement," explained CEO Samuel R. Allen. "Sales gains for the quarter, however, were moderated by bottlenecks in the supply chain and logistical delays in shipping products to our dealers. In line with strengthening conditions, we have raised our sales and adjusted-earnings forecasts for 2018 and have confidence we will be able to fulfill the needs of our customers over the course of the year." Deere's equipment sales are projected to increase by about 29% for fiscal 2018 and net income is forecast to be about $2.1 billion, with the latter "including an unfavorable impact of tax reform estimated at $750 million, representing the net impact of the tax provision recorded at the enactment date of tax reform, partially offset by a lower effective tax rate over the remainder of the year." Expected adjusted net income would thus be about $2.85 billion for the year.

"Although net income for the quarter and full year are being affected by the upfront costs of U.S. tax reform legislation, we believe the changes will reduce the company's overall tax rate and be beneficial in the future," said Mr. Allen. "At the same time, Deere is in good position to capitalize on the strengthening conditions we see in the world's agricultural and construction equipment markets. This underscores our success developing a more durable business model while making steady investments in new products, businesses, markets and technologies. As a result of these steps, Deere has become more profitable across the business cycle than in the past. We remain confident in the company's present direction and believe Deere is on track to continue delivering significant value to customers and investors in the future."

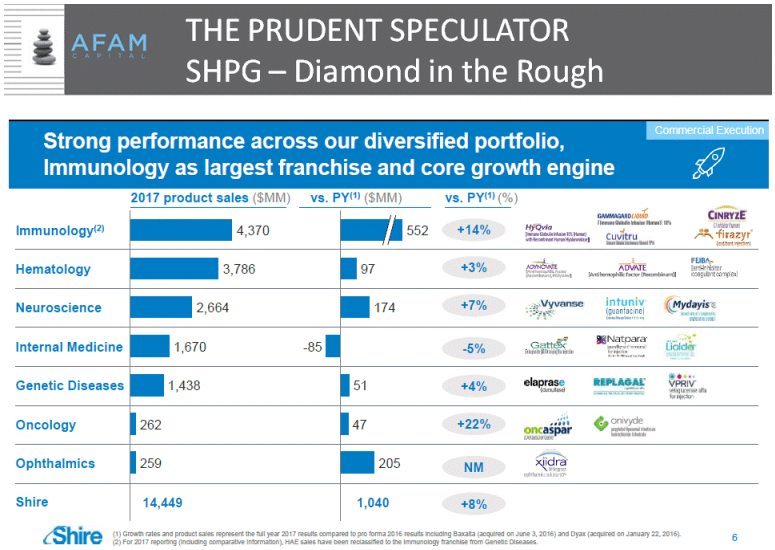
We have continued to be pleased with Deere's progress (the stock price is up more than 50% over the last 12 months) and believe the production bottlenecks will get worked out. We remain optimistic about the long-term potential of global agriculture in general, as the decline of global arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. That said, while we think that Deere will benefit from continued global demand we will be paying close attention to further price movement and will not be hesitant to trim or sell our position if the valuation gets too stretched (or if an opportunity with a more appealing risk/reward profile presents itself). Our Target Price for DE has been boosted to $182.

Shares of **Shire PLC** (SHPG – $134.06) bounced back more than 5% last week as equity markets around the globe recovered and the company turned it its Q4 and full-year 2017

results. For the last quarter of 2017, the biopharma concern said it had expectation-beating adjusted EPS of $3.98 on revenue of $4.15 billion (versus forecasts of $3.95 billion). CEO Flemming Ornskov, M.D., M.P.H., explained, “Shire delivered 8% pro forma product sales growth to $14.4 billion in 2017, an increase of over $1 billion. Of particular note are the strong performance of our Immunology franchise and the significant contribution from recently launched products, as well as growth in international markets. We increased Non GAAP diluted earnings per ADS by 16%, realizing cost synergies ahead of plan.”

Looking ahead, management announced that its initial forecast for full-year 2018 adjusted EPS is between $14.90 and $15.50. “2018 is a year of continued focus on commercial execution and targeted investment in our manufacturing infrastructure, new product launches, and pipeline to drive future growth. We expect to deliver mid-single digit product sales growth in 2018 after absorbing the anticipated impact of generics,” commented Dr. Ornskov.

He concluded, “The mid-term outlook for growth is positive driven by our Immunology franchise, multiple near-term launches, and international markets. We are committed to achieving our projected revenue target of $17 – $18 billion in 2020. Based on current assumptions, we expect Non GAAP diluted earnings per ADS growth to be lower than top line growth in 2018, mainly due to costs incurred from the start-up of our new U.S. plasma manufacturing site, intensifying genericization, and lower royalties. With the already disclosed manufacturing and SG&A cost reduction initiatives, we are on track to achieve mid-forties Non GAAP EBITDA margin by 2020.”



We continue to believe Shire shares are significantly undervalued following 2017 financial results and forward expectations. Overall, the firm’s integration of Baxalta is going well and has resulted in its immunology franchise continuing to expand at a double-digit rate as uptake of subcutaneous products remains strong, which would seem to be a positive offset to the challenges that are present in the hemophilia space. While investors didn’t seem to care for the company’s announcement last year that it might divest its neuroscience business, the company hasn’t made any final decisions and that probably won’t come until the second half of 2018. In the meantime, its ADHD franchises will see some potentially important product launches occur in Asia this year, which could boost the valuation of the business line. Additionally, the continued evolvement of Shire’s rare disease portfolio should create long-term opportunities.

SHPG shares trade at less than 9 times NTM adjusted EPS expectations and our Target Price has been bumped up to $252.

Shares of **Biogen** (BIIB – $291.87) fell almost 8% mid-week, and the stock is now off almost 20% since the last week of January, as investors became increasingly worried about the biotech giant's Alzheimer drug aducanumab after the company announced that it was expanding the amount of participants in its phase 3 study.

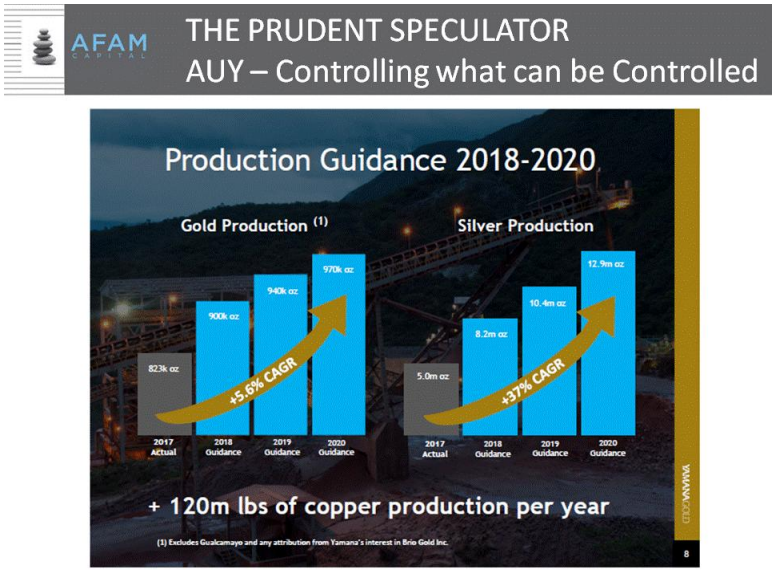
The details: The study will enroll 510 additional patients as a result of a pre-planned blinded sample size re-estimation. Based on observed variability around the primary endpoint of CDR-SB (Clinical Dementia Rating-Sum of Box) at 78 weeks for certain patients who have reached that milestone, Biogen decided to increase the number of patients by 255 in each trial to maintain 90% power. The size of enrollment (originally 2,700), number of clinical trial sites (330), and geographic diversity could be part of the reason why Biogen observed the variability that is has. Despite the addition of 510 patients, BIIB noted brisk enrollment rate and lower than expected dropout rate to date and expects complete enrollment this summer. From everything we read, we think that final data won't come out until the second half of 2020.

With investors selling shares over the participant expansion news, we do want to note that pre-planned study sample size re-estimation to maintain desired power is standard practice that is endorsed by FDA. BIIB continues to be a favored large-cap biotech holding as its base business has been more stable, and we like the growth of its drug Spinraza and its pipeline potential upside (including aducanumab). The drop in price has BIIB shares currently trading at less than 12 times NTM adjusted EPS estimates. Still, with an increased level of uncertainty in the pipeline, we have trimmed our Target Price to $446.

Mining firm **Yamana Gold** (AUY – $3.12) reported a fiscal Q4 2017 loss of $0.20 per share (vs. an estimated gain of $0.03) that was due in large part to "non-cash impairment recognized on the re-measurement of Gualcamayo and related Argentinian exploration properties in association with their reclassification as assets held for sale." Believe it or not, Bloomberg showed adjusted EPS of $0.06, actually beating expectations, which makes some sense, given that AUY had revenue of $479.0 million, versus the $472.0 million estimate.

COO Daniel Racine said, "We continue the trend of strong performance in the fourth quarter of 2017.We produced 259,000 ounces of gold, 1.2 million ounces of silver, and 34.7 million tons of copper. We were able to deliver fourth quarter production at the by-product all-in sustaining cost of $829 per ounces of gold and $11 per ounces of silver…Our full-year co-product cash costs and co-product all-in cash sustaining costs were in line with expectations for all metals. On a by-product basis, full-year gold production was delivered at a cash cost of and all-in sustaining cost per ounces at $561 and $820 respectively."

Mr Racine continued, "Looking forward, we see increase in gold and silver production in 2018 as Cerro Moro comes into production. We expect to produce 900,000 ounces of gold, 8.15 million ounces of silver, and 128 million tons of copper. Overall, the approach and parameter used for budgeting are consistent with those used in 2017. As Peter highlighted, we also provide GEO guidance to help give us a better senses of the size of production platform. If we look on a gold equivalent basis, we are guiding approximately 1 million ounces for 2018."



To be sure, the market saw the proverbial glass as half-empty, given that the stock dropped 10% on the earnings news, giving up all of its gains for the year, but we continue to be comfortable with this gold miner as a geographically diverse hedge for a small portion of our portfolios. Further, we think that AUY's share price can sharply reverse its recent course, as has happened numerous times in the past when investors have gravitated to the precious yellow. Still, our Target Price for AUY has been reduced to $4.96.

Allianz SE (AZSEY – $23.79) earned $0.46 per share in Q4 2017 (vs. $0.49 est.). The insurer proposed an increase in its dividend of 5% and reported that results were hampered by insurance claims from natural disasters. Traders on Wall Street collectively shrugged at the results, with the share price declining a half percent on Friday.

CEO Oliver Baete said, "We are still battling declining interest rates in our investment portfolios that we had to deal with, probably the strongest NatCat year in our history as an industry and regulation. We have worked very hard to put our capital and our investors' capital productive use, and the market has nicely rewarded us for that. Capitalization was 229%, very strong and we are therefore in the position to increase dividend per share. That is 5% up and in line with what we've been telling you since November of 2015, that we want to grow earnings and dividends per share by 5% on a CAGR basis. And I think, again, a few people didn't have on their mind that we're sticking to our 50% payout ratio. But given the fact that by the AGM, we will have bought enough shares to go to 8% and still stick to the 50% payout ratio."

Allianz said that it expects operating profit for 2018 to be 10.6 billion to 11.6 billion euros with adjusted EPS of 16.90 euros (or $2.17 per U.S.-traded AZSEY share). Certainly, management is still treading carefully given recent natural disasters and a need to keep a strong balance sheet, remaining more cautious than optimistic for at least the beginning part of 2018. Liking the desire to under-promise and over-deliver, we think the high quality shares are very inexpensive, trading for less than 11 times estimated earnings and with a net current (before the proposed hike) yield near 2.6%. Our Target Price for AZSEY has been lifted to $29.