MARKET COMMENTARY MONDAY, MARCH 5, 2018

EXECUTIVE SUMMARY

Week #9 – A Tough Five Days
Trump Perspective – Equities up Sharply Since 2016 Election
Econ News – Excellent, Not-So-Good & Mixed Data
TPS 617 – March Edition of *The Prudent Speculator* has been Published
More Myth Debunking – Interest Rates, Inflation & Age of the Bull Market
Private Bear Market – 22 Undervalued Bargains
Stock News – Updates on CMCSA, DIS, TPC, FL, LOW & KSS

Market Review

It was another interesting week (aren't they all?) in the equity markets, starting on an optimistic tone following the release of the Berkshire Hathaway 2017 Letter to Shareholders, but moving on to fears that a too-strong economy could compel the Federal Reserve to hike interest rates more than expected and ending with worries about a trade war that might zap economic growth and boost inflation. Not surprisingly, given all of the cross-currents, market volatility remained elevated with wide trading ranges the norm each day.

When the weekly numbers were tallied, even with a late-day rebound on Friday, the broad-based Russell 3000 index and S&P 500 dropped 1.81% and 1.98%, respectively. Growth stocks showed modest outperformance, with the Russell 3000 Growth index losing 1.72% compared to the 1.92% decline in the Russell 3000 Value index, with all four gauges topping the 2.97% skid in the Dow Jones Industrial Average.

The Dow was no doubt hurt by the fact that several of its high-priced constituents are consumers of steel and aluminum, with the White House's announcement of a 25% import tariff on the former and a 10% import tariff on the latter likely leading to higher raw materials costs, not to mention the possibility that foreign governments will retaliate with tariffs of their own. Such appears to be the case, with *The Wall Street Journal* reporting, "Europe has already put together a specific package of penalties that would hit a total of $3.5 billion in U.S. exports, including Harley Davidson motorcycles, bourbon and blue jeans."

While White House trade advisor Peter Navarro declared, "I don't believe any country in the world is going to retaliate for the simple reason we are the most lucrative and biggest market in the world," Roberto Azevêdo, director-general of the World Trade Organization, said, "The potential for escalation is real, as we have seen from the initial responses of others," adding, "A trade war is in no one's interest."

Generally speaking, we agree with Mr. Azevêdo, despite President Trump's assertion, "When a country is losing many billions of dollars on trade…trade wars are good and easy to win," and we expect that cooler heads will eventually prevail. That is not to say that the near-term won't see more turbulence in the equity markets, but stocks have performed superbly since the 2016 Election,…

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THE PRUDENT SPECULATOR
Trump: Pro-Business or Protectionistic?

Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since Trump Election (11.8.16) %	Bloomberg Symbol	Index
Stock Indexes					
-0.30	28.11	16.50	38.21	INDU Index	Dow Jones Industrial Average
5.34	29.73	8.97	41.95	CCMP Index	NASDAQ Composite Index
0.93	21.68	12.04	29.15	RIY Index	Russell 1000 Index
0.02	14.63	21.28	30.52	RTY Index	Russell 2000 Index
0.86	21.12	12.72	29.25	RAY Index	Russell 3000 Index
1.00	21.82	11.95	29.17	SPX Index	S&P 500 Index
3.48	30.21	7.07	38.50	RLG Index	Russell 1000 Growth Index
-1.67	13.64	17.33	20.18	RLV Index	Russell 1000 Value Index
2.43	22.14	11.28	37.80	RUO Index	Russell 2000 Growth Index
-2.58	7.82	31.72	23.31	RUJ Index	Russell 2000 Value Index
3.40	29.58	7.38	38.43	RAG Index	Russell 3000 Growth Index
-1.74	13.17	18.38	20.42	RAV Index	Russell 3000 Value Index
4.14	27.43	6.89	35.55	SGX Index	S&P 500 Growth Index
-2.29	15.35	17.39	21.66	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-2.06	3.57	0.79	-0.77	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.18	3.53	0.75	-0.99	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-0.73	8.17	0.82	8.18	PONAX Equity	Pimco Income Fund-A
-0.11	2.39	0.81	1.54	VTABX Equity	Vanguard Total Intl Bnd-Adm
-1.90	3.10	0.76	-0.76	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-1.66	5.13	0.73	1.53	PTTRX Equity	Pimco Total Return Fund-Inst
-0.70	7.36	0.63	7.34	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.63	2.02	-0.01	0.61	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-1.23	4.53	0.21	0.56	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.16	4.36	0.63	2.08	DODIX Equity	Dodge & Cox Income
-1.02	3.79	0.51	1.30	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.41	1.89	0.07	1.26	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 3.2.18

Though we know that many are very short-term-oriented and we respect that stocks generally are now in the red this year, while looming tariffs on aluminum and steel has spooked the markets with fear of a trade war, equities have enjoyed sizable gains since the 2016 Presidential Election, especially compared to bonds, even as high-flying Growth stocks like Amazon, Facebook and Tesla have been the big winners.

…and one might think that the potential for a trade-war-related hit to the U.S. and global economies could see the Federal Reserve temper the pace of interest rate hikes,…

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THE PRUDENT SPECULATOR
Futures: Two, Three of Four Hikes in 2018

Though some are starting to fear a faster pace, we do not expect much change in the plan for a gradual boosting of interest rates, following the transition to Jerome Powell as Fed Chair. The odds now suggest a 24.1% chance of two and a 40.3% chance of three increases in the Fed Funds rate in 2018, though 24.6% is the probability of four or more hikes.

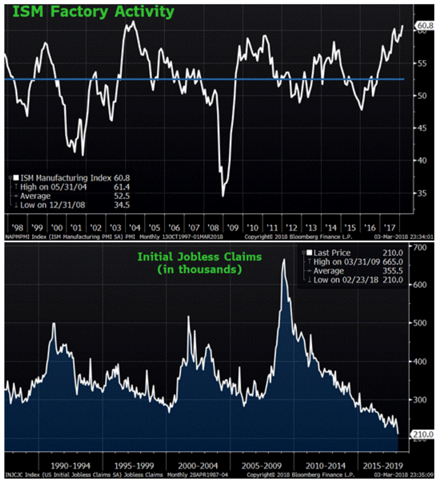
99) Export Data — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Midpoint — Fed Effective Rate 1.42
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 03/02/2018 — Based on rate 1.25-1.50

Meeting	Hike Prob	Cut Prob	1.5-1.75	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25
03/21/2018	100.0%	0.0%	90.0%	10.0%	0.0%	0.0%	0.0%	0.0%	0.0%
05/02/2018	100.0%	0.0%	86.2%	13.4%	0.4%	0.0%	0.0%	0.0%	0.0%
06/13/2018	100.0%	0.0%	20.9%	68.5%	10.3%	0.3%	0.0%	0.0%	0.0%
08/01/2018	100.0%	0.0%	19.2%	64.6%	15.1%	1.1%	0.0%	0.0%	0.0%
09/26/2018	100.0%	0.0%	7.7%	37.5%	44.6%	9.5%	0.7%	0.0%	0.0%
11/08/2018	100.0%	0.0%	6.9%	34.2%	43.9%	13.3%	1.7%	0.1%	0.0%
12/19/2018	100.0%	0.0%	4.3%	24.1%	40.3%	24.6%	6.0%	0.7%	0.0%
01/30/2019	100.0%	0.0%	4.0%	22.5%	39.0%	25.9%	7.5%	1.1%	0.1%

Source: Bloomberg

…even as new Fed Chair Jerome Powell testified before Congress last week, “I would expect the next two years, on the current path, to be good years for the economy.” Of course, recent data, including the second estimate of Q4 U.S. GDP growth coming in at just 2.5%, would argue that the U.S. economy is not exactly overheating, despite some very robust numbers.

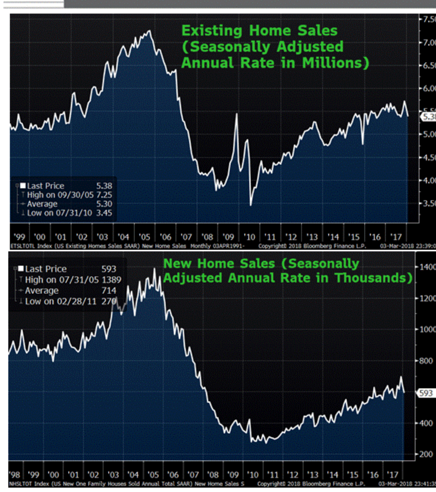
THE PRUDENT SPECULATOR
Very Strong Economic Numbers



The latest read on the health of the factory sector came in at a very strong 60.8, the best in 14 years, with that ISM Manufacturing Index tally corresponding to a 5.8% increase in real GDP on an annual basis. Meanwhile, first-time filings for unemployment jobless benefits in the most recent week fell to 210,000, the lowest level on record in the monthly data series plotted here, and the fewest number of claims in 49 years.

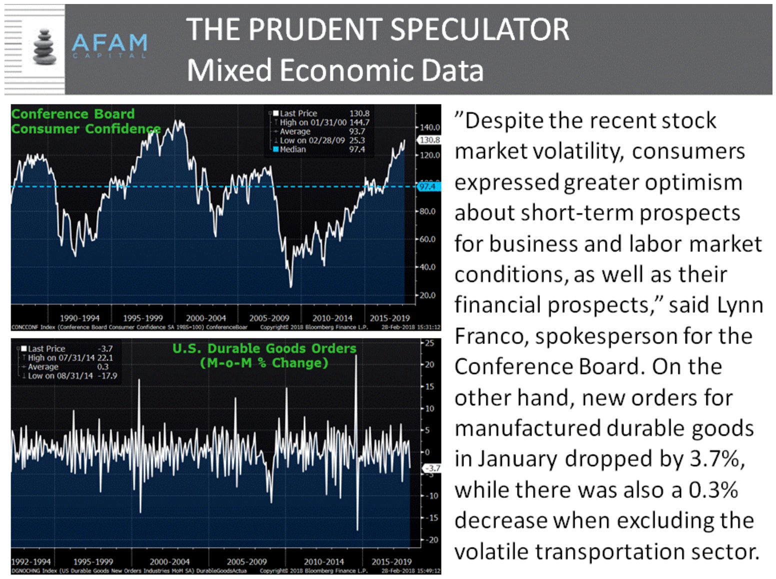
Indeed, there have been some disappointing statistics, including those related to housing,…

THE PRUDENT SPECULATOR
Weaker Economic Stats

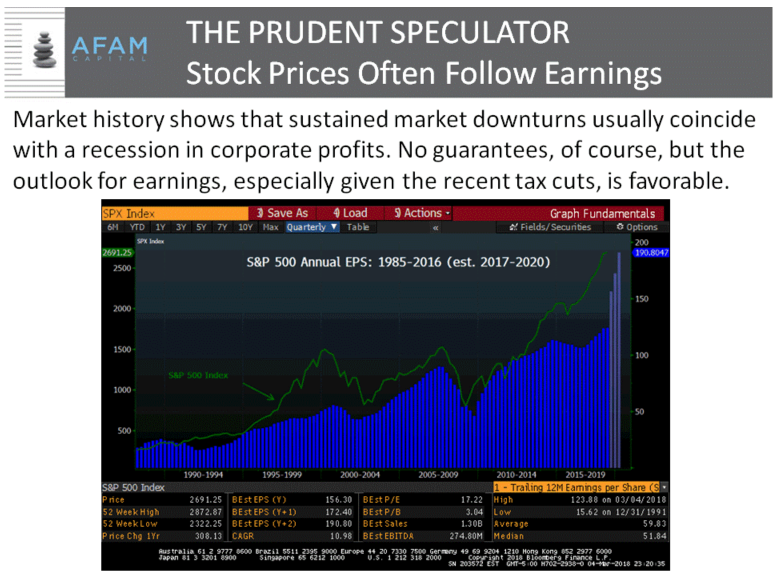


Higher supply and lower prices failed to boost existing home sales in January, which unexpectedly fell 3.2% to an annualized rate of 5.38 million, well below the consensus estimate of 5.65 million and the lowest rate for January since 1999. It was the same story with new home sales, as they dropped to a annualized rate of 593,000 in January, no doubt not helped by higher interest rates and the change in the tax code.

…while other data points have been mixed,…



…but the outlook for corporate profits remains very favorable.



We looked at Q4 earnings and reiterated our reasons for long-term optimism, especially for our broadly diversified portfolio of undervalued stocks, in the March edition of *The Prudent Speculator*, which was emailed on Friday evening. Of course, despite our enthusiasm for equities, and our constant provision of data in support of a Bullish view for those who share our multi-year time horizon, we know that there is plenty of argument otherwise. We do our best to debunk the myths, even as we realize that should markets head further south in the near-term, the supposed experts will be quick to blame factors like higher interest rates,…

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

…worries about increased inflation,…

THE PRUDENT SPECULATOR
Fear Over Facts - Inflation

Why an Unpleasant Inflation Surprise Could Be Coming

If inflation turns up, economists have long assumed it would do so slowly, giving the Fed plenty of time to respond. But Michael Feroli of J.P. Morgan notes this assumption is built on models in which the world behaves in a predictable, linear way. In fact, he says, the world isn't linear and inflation can change suddenly for unexpected reasons: it "is sluggish and slow-moving, until it isn't."

A case in point: in 1966, inflation, which had run below 2% for nearly a decade, suddenly accelerated to over 3%. Some of the circumstances echo the present: unemployment had slid to 4%, taxes had been cut and federal spending for the Vietnam War and Lyndon Johnson's "Great Society" programs was surging. Deutsche Bank economists note the budget deficit jumped by more than 2% of gross domestic product between 1965 and 1968, similar to what they project between 2016 and 2019. Except in recessions, stimulus of this size "is unprecedented outside of these two episodes," they said.

The effect of an overheating economy was then compounded by policy errors. Fed chairmen William McChesney Martin Jr. and Arthur Burns were too optimistic about how low unemployment could go without pushing prices higher, and succumbed to pressure from Johnson and then Richard Nixon to keep interest rates low. ***From 1966 to 1981, inflation and interest rates climbed to double digits, decimating stock and bond values.***

Wall Street Journal, February 28, 2018

In yet another example of fear over facts, *The Wall Street Journal* warned of dire consequences should we have another inflation and interest rate scare like 1965-1981. If past is prologue, as Value investors, we hope they are right.

Annualized Returns December 1965 - December 1981	
Inflation	7.0%
IA SBBI US 1 Yr Treasury TR	7.1%
IA SBBI US 30 Day TBill TR	6.8%
IA SBBI US LT Govt Bonds TR	2.5%
IA SBBI US IT Govt Bonds TR	5.8%
IA SBBI US LT Corp Bonds TR	2.9%
FF Growth Stocks TR	7.4%
S&P 500 TR	6.0%
Dow Jones Industrials TR	3.9%
FF Value Stocks TR	13.4%
Source: Morningstar	

…or the age of the Bull Market.

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THE PRUDENT SPECULATOR
Market of Stocks – 2015/2016 Bear

Last Bear Market Ended 2016

Start	End	Perf	Instrument	Start	End	Perf	Instrument
6/23/2015	2/11/2016	-23.6%	Russell 3000 Average Stock	7/20/2015	2/11/2016	-23.7%	NASDAQ Composite Average Stock
12/18/2014	1/25/2016	-18.4%	Berkshire Hathaway	11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
8/29/2014	2/11/2016	-21.2%	Buckingham Portfolio	6/23/2014	1/20/2016	-47.3%	S&P 500 Energy
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average	7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF	11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF	7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.	5/21/2015	2/11/2016	-14.2%	S&P 500 Index
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index	2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index	12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index	2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index	3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index	2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index	4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index	1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index	5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index	6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index	6/23/2015	2/11/2016	-17.1%	Wilshire 5000

Obviously, nothing presented above provides any assurance that stock prices will move higher in the near term, but we like what Warren Buffett had to say in his latest shareholder letter.

"Charlie and I view the marketable common stocks that Berkshire owns as interests in businesses, not as ticker symbols to be bought or sold based on their 'chart' patterns, the 'target' prices of analysts or the opinions of media pundits. Instead, we simply believe that if the businesses of the investees are successful (as we believe most will be) our investments will be successful as well. Sometimes the payoffs to us will be modest; occasionally the cash register will ring loudly. And sometimes I will make expensive mistakes. Overall – and over time – we should get decent results. In America, equity investors have the wind at their back."

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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	2/23/2018

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 2.23.18. 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

The Oracle of Omaha added, "Though markets are generally rational, they occasionally do crazy things. Seizing the opportunities then offered does not require great intelligence, a degree in economics or a familiarity with Wall Street jargon such as alpha and beta. What investors then need instead is an ability to both disregard mob fears or enthusiasms and to focus on a few simple fundamentals. A willingness to look unimaginative for a sustained period – or even to look foolish – is also essential."

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THE PRUDENT SPECULATOR
TPS Portfolio – Return Comparisons

Certainly, it has been difficult in recent years for broad-based investment strategies to outperform the capitalization-weighted indexes, with 2017 continuing that trend, but we are proud of the long-term performance record of *The Prudent Speculator*, especially relative to Value-oriented approaches.

Annualized Returns

Period	TPS Portfolio	S&P 500	Russell 3000 Value	Outperform S&P	Outperform R3KV	Period	TPS Portfolio	S&P 500	Russell 3000 Value	Outperform S&P	Outperform R3KV
25 Years	15.9%	9.7%	10.1%	Yes	Yes	12 Years	8.1%	8.8%	7.7%	No	Yes
24 Years	14.9%	9.7%	9.7%	Yes	Yes	11 Years	7.6%	8.2%	6.4%	No	Yes
23 Years	16.2%	10.1%	10.3%	Yes	Yes	10 Years	8.3%	8.5%	7.2%	No	Yes
22 Years	13.6%	8.9%	9.2%	Yes	Yes	9 Years	16.6%	15.2%	13.6%	Yes	Yes
21 Years	11.8%	8.3%	8.6%	Yes	Yes	8 Years	14.1%	13.9%	12.8%	Yes	Yes
20 Years	10.4%	7.2%	7.5%	Yes	Yes	7 Years	12.9%	13.8%	12.3%	No	Yes
19 Years	10.8%	6.2%	7.2%	Yes	Yes	6 Years	15.7%	15.8%	14.5%	No	Yes
18 Years	10.6%	5.4%	7.2%	Yes	Yes	5 Years	15.2%	15.8%	14.0%	No	Yes
17 Years	10.9%	6.3%	7.1%	Yes	Yes	4 Years	9.5%	12.0%	9.7%	No	No
16 Years	10.5%	7.6%	7.9%	Yes	Yes	3 Years	11.0%	11.4%	8.7%	No	Yes
15 Years	14.6%	9.9%	9.6%	Yes	Yes	2 Years	19.5%	16.8%	15.8%	Yes	Yes
14 Years	9.8%	8.7%	8.2%	Yes	Yes	1 Year	20.0%	21.8%	13.2%	No	Yes
13 Years	8.8%	8.5%	7.6%	Yes	Yes						

Source: AFAM Capital. As of 12.31.17

Mr. Buffett concluded, "As an investor's investment horizon lengthens, however, a diversified portfolio of U.S. equities becomes progressively less risky than bonds,…

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

Amazing how the chance of a poor outcome in stocks (return lower than a recent 2.88% yield on the 10-Year U.S. Treasury) melts away with time.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.88%	Count <=2.88%	Percent >2.88%
1 Month	671	415	61.8%
3 Months	712	372	65.7%
6 Months	736	345	68.1%
1 Year	762	313	70.9%
2 Year	842	221	79.2%
3 Year	883	168	84.0%
5 Year	885	142	86.2%
7 Year	932	71	92.9%
10 Year	924	43	95.6%
15 Year	895	12	98.7%
20 Year	847	0	100.0%

DIVIDEND PAYERS

	Count >2.88%	Count <=2.88%	Percent >2.88%
1 Month	661	425	60.9%
3 Months	704	380	64.9%
6 Months	743	338	68.7%
1 Year	766	309	71.3%
2 Year	850	213	80.0%
3 Year	846	205	80.5%
5 Year	874	153	85.1%
7 Year	908	95	90.5%
10 Year	899	68	93.0%
15 Year	877	30	96.7%
20 Year	845	2	99.8%

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

…assuming that the stocks are purchased at a sensible multiple of earnings relative to then-prevailing interest rates."

THE PRUDENT SPECULATOR
Fed Model: Favorable Earnings Yield

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively generous earnings yield of 4.6%.

And, for those waiting for a correction or Bear Market before committing money to equities, we present a diversified listing of 22 undervalued stocks, all of which are down at least 20% from their 52-week high prices.

THE PRUDENT SPECULATOR
Market of Stocks – Private Bear Market

The major market averages are not presently even in correction territory (off 10%+), but some stocks are in their own Bear Market (off 20%+).

Bargain Stocks Aready in a Bear Market

Symbol	Common Stock	Below 52 Wk High	3.2.18 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
GM	General Motors	20%	$37.43	$56.94	Autos & Components	5.7	0.4	1.8	2.1	16.4	231%	4.1%	52,422
HAL	Halliburton	20%	$46.03	$64.11	Energy	37.7	2.0	7.2	16.8	2.7	185%	1.6%	40,272
MDC	MDC Holdings	21%	$27.78	$47.80	Consumer Durables	11.2	0.6	1.1	11.1	4.1	78%	4.3%	1,559
SYMC	Symantec	21%	$26.91	$34.79	Software & Services	17.9	3.5	nmf	35.0	5.5	nmf	1.1%	16,726
LOW	Lowe's Cos	22%	$85.34	$115.84	Retailing	19.4	1.0	15.5	10.7	5.4	341%	1.9%	70,812
WHR	Whirlpool	22%	$158.65	$230.49	Consumer Durables	11.5	0.5	nmf	9.0	5.3	nmf	2.8%	11,215
AUY	Yamana Gold	22%	$2.95	$4.96	Materials	62.4	2.0	0.9	18.4	-5.7	45%	0.7%	2,798
SNY	Sanofi	22%	$39.26	$59.23	Pharma, Biotech	11.4	4.4	16.8	11.1	nmf	302%	3.4%	98,469
BIIB	Biogen	23%	$286.96	$445.68	Pharma, Biotech	13.2	4.9	14.8	9.3	6.1	145%	0.0%	60,710
DLR	Digital Realty Trust	23%	$98.22	$130.33	Real Estate	16.0	nmf	3.7	nmf	nmf	nmf	4.1%	21,042
COHU	Cohu Inc	23%	$20.07	$31.94	Semiconductors	13.0	1.6	2.8	9.7	5.9	2%	1.2%	573
GT	Goodyear Tire	24%	$28.14	$48.87	Autos & Components	9.0	0.4	1.7	5.8	4.4	131%	2.0%	6,763
ANH	Anworth Mortgage	26%	$4.71	$6.10	Diversified Financials	8.7	nmf	0.8	nmf	nmf	nmf	12.7%	463
SHPG	Shire PLC	31%	$133.19	$252.21	Pharma, Biotech	8.8	2.7	nmf	12.6	8.6	nmf	0.8%	40,433
AXS	Axis Capital	31%	$48.02	$67.70	Insurance	nmf	nmf	1.0	nmf	nmf	nmf	3.2%	3,997
DOC	Physicians Realty	32%	$14.78	$22.82	Real Estate	14.2	nmf	1.1	nmf	nmf	nmf	6.2%	2,686
TPC	Tutor Perini	33%	$21.95	$37.29	Capital Goods	11.6	0.2	1.1	7.0	12.2	68%	0.0%	1,093
KIM	Kimco Realty	34%	$15.29	$23.73	Real Estate	10.1	nmf	1.5	nmf	nmf	nmf	7.3%	6,505
ALK	Alaska Air Group	36%	$63.38	$104.10	Transportation	9.6	1.0	4.7	5.4	6.7	138%	2.0%	7,796
TNP	Tsakos Energy	36%	$3.38	$7.25	Energy	30.7	0.5	0.2	8.7	nmf	119%	5.9%	287
ABX	Barrick Gold	43%	$11.54	$21.10	Materials	15.6	1.6	1.7	3.8	5.0	83%	1.0%	13,462
FL	Foot Locker	49%	$40.04	$72.95	Retailing	10.0	0.6	2.1	5.5	11.1	5%	3.4%	4,853

As of 3.2.18. 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 take a look at a half-dozen companies in the news last week…

Another potential suitor has entered the race to take over British telecom and media company Sky PLC. The British outfit was initially pursued by 21st Century Fox in late 2016, which sought to purchase the remaining 61% of shares that it did not already own. In December 2017, **Walt Disney**(DIS – $102.99) became the de-facto suitor, after announcing that it would purchase

21st Century Fox. With Disney taking the lead and many concerns about adverse effects from the Rupert Murdoch sexual harassment scandal quelled, the hope was that the British Competition and Markets Authority (CMA) would be more likely to approve the deal. Enter **Comcast** (CMCSA – $34.69) on February 27, putting forth a 12.50 pound per share all-cash offer, beating the existing 10.75 pound per share Fox offer.

Comcast CEO Brian Roberts, said, "We think Sky is an outstanding company. It has 23 million customers, leading positions in the UK, Italy and Germany, and is a consistent innovator in its use of technology to deliver its customers a great experience. Sky has a proud record of investment in news and programming. It has great people and a very strong and capable management team.

"We would like to own the whole of Sky and we will be looking to acquire over 50% of the Sky shares. We are confident that we will be able to receive the necessary regulatory approvals. If successful, the acquisition will enhance our free cash flow per share in the first year.

"The UK is and will remain a great place to do business. We already have a strong presence in London and Comcast intends to use Sky as a platform for our growth in Europe. We intend to maintain and enhance Sky's business. Adding Sky to the Comcast family of businesses will increase our international revenues from 9% to 25%. We believe that there are significant opportunities for growth by combining these businesses. We are continually seeing that customers' demands and expectations are evolving rapidly as technology enables new products and services. By combining the content, technology expertise and investment of Comcast with the market leading businesses and talent within Sky, we will create a very exciting platform for growth across Europe.

"We hold the management of Sky in high regard and would welcome the opportunity to meet with them and the independent directors of Sky to discuss our plans for the business, particularly with respect to maintaining Sky's strong platform in the UK. In due course, we very much hope that the independent directors will recommend our proposal."

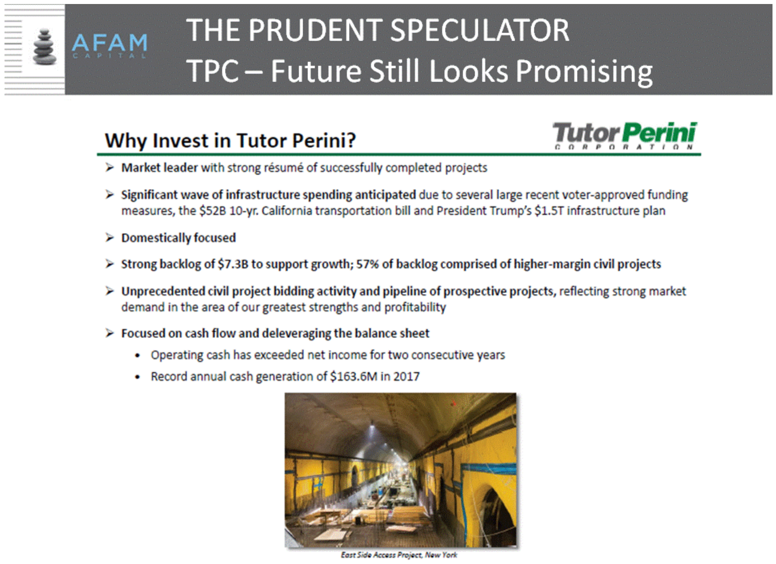
We think that the Comcast offer, with its higher price and all-cash compensation is demonstrably stronger than the existing Fox/Disney offer, and having Comcast in the mix could derail or disrupt the pending Disney/21st Century Fox deal. Therefore, we think that Fox/Disney will need to increase its offer for Sky if either party wants to get a deal done. Interestingly, CMCSA shareholders were noticeably displeased with the Sky bid, pushing shares down more than 8% since the offer was announced, while DIS was also punished on concerns of a bidding war. In any event, we don't think the fights for Sky and/or Fox are over, and therefore we aren't incorporating any transactions into our Target Prices or valuations yet. Perhaps it is most appropriate for us, and other shareholders, to stay tuned. Our Target Price for CMCSA is $53 and for DIS is $145.

Despite an initial jump in share price following the report of solid growth in its business backlog, shares of **Tutor Perini** (TPC – $21.95) ended the week down as investors evidently were disappointed in the company's top-line miss for the period, as well as a weaker than expected 2018 earnings forecast. While analysts were looking for revenue of $1.39 billion for the period, TPC reported $1.19 billion. Adjusted EPS for Q4 came in at $0.56, versus consensus estimates of $0.51.

"We had an excellent year of new awards that grew our backlog significantly. In addition, our continued intense focus on improved working capital management enabled us to generate record operating cash in 2017," remarked Chairman and CEO Ronald Tutor. "The Civil segment performed particularly well, growing its backlog by 54% in 2017 and finishing with a 12.0% operating margin for the year. Our large current backlog and volume of prospective opportunities together with our expectation for improved profitability in the Specialty Contractors segment provides us with confidence for even better operating results in 2018."

Backlog as of the end of 2017 was $7.3 billion, up 17% compared to $6.2 billion as of the end of 2016. New awards and adjustments to contracts in progress during the fourth quarter and full year 2017 were $1.0 billion and $5.8 billion, respectively. The Civil segment was the major contributor to new award activity in 2017, and both the Civil and Building segments are expected to drive backlog growth in 2018. The company has previously announced certain sizeable new projects that are expected to be booked as new awards in the first quarter of 2018, including the $1.41 billion Newark Airport Terminal One Design-Build project and a $172 million mechanical project at the Baruch Houses complex in New York.

Looking ahead, management said, "The company anticipates continued strong demand across various end markets. Revenue growth in 2018 is expected to be driven by higher volume of work in the Civil and Building segments, while increased operating income is expected to result from consistent operating margins in the Civil and Building segments and a higher operating margin in the Specialty Contractors segment. In addition, the lower effective tax rate resulting from recent tax reform together with reduced interest expense should positively benefit the 2018 results. For full-year 2018, TPC is establishing its initial EPS guidance at a range of $1.90 to $2.30 per diluted share (well below the analyst consensus of $2.66). The company's results are anticipated to be weighted towards the second half of 2018 due to the seasonality of the business."



We have to admit that TPC remains a frustrating holding. On one hand, we are enthused by the cheap valuation, backlog builds and potential catalysts from increased infrastructure spend in the U.S. On the other hand, the company seems to consistently come up short in execution and often disappoints relative to expectations. Keeping in mind that every stock is always fighting to keep its place in our portfolios, we will continue to maintain our position in TPC as we desire exposure to the industry and we can't ignore that shares change hands at slightly more than 10 times the next-twelve-month earnings expectation and for just 64% of book value. Nevertheless, our Target Price has been trimmed to $37.

Shares of **Foot Locker** (FL – $40.04) plummeted more than 12% after the footwear retailer reported quarterly results that saw revenue in line with expectations but adjusted EPS almost 17% short of consensus forecasts. For the three month period, FL reported revenue of $2.2 billion and adjusted EPS of $1.14. Weak European store traffic and difficult comps in women's footwear pushed same-store sales lower than projected. That said, stabilizing customer traffic trends in domestic stores and tighter inventory levels are positives for the future, especially as an improving product lineup is seemingly coming from its brand partners.

CEO Richard Johnson explained, "The dramatic shifts influencing the expectations and behaviors of our customers continued to affect our business in the fourth quarter, just as they have throughout 2017. That said, we remained a highly profitable company in 2017, even though our sales and profit results were not what we planned for going into the year. Looking ahead, with the product and other strategic initiatives we have underway, we believe we are positioned well, both organizationally and financially, to successfully transform our business to continue inspiring and serving an exceptionally dynamic youth culture, for generations to come."

FL currently expects a flat to up low-single-digit comparable-store sales performance for fiscal 2018 and gross margins to begin recovering from 2017's 31.6% rate, which fell 2.3% from the gross margin rate in fiscal 2016. "The first quarter of 2018 will likely see the continuation of sales and margins in line with trends in the second half of 2017," said CFO Lauren Peters.

"However, we are confident that we will inflect back to positive comparable-store sales by the middle of 2018, with the pace of sales continuing to gradually strengthen in the second half of the year based on the improving depth and variety of premium products we see coming from our key vendors. We also expect a double-digit percentage increase in annual earnings per share, with an effective tax rate in the 27 to 28% range and a lower share count both contributing to this performance."

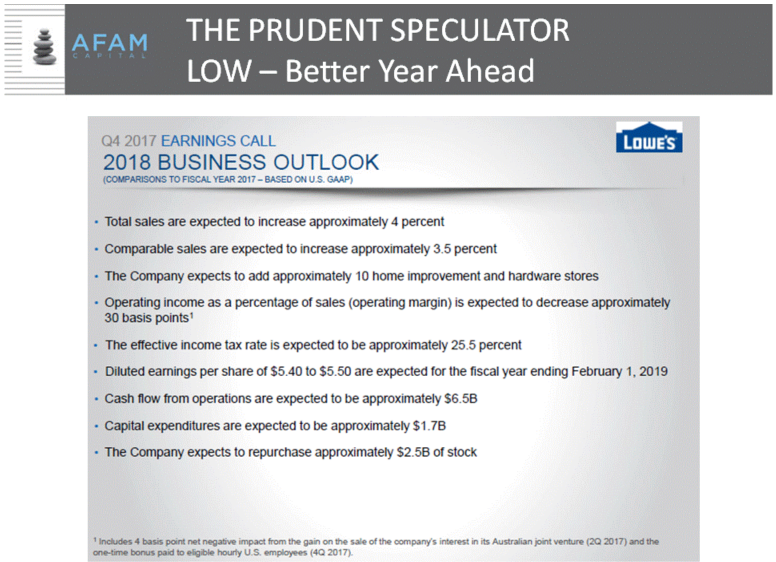
Foot Locker spent $105 million to buy back 2.8 million shares during the quarter. And, for the full year, the company returned $624 million to shareholders through its repurchase program and dividends, spending $467 million to buy back 12.4 million shares and paying $157 million in dividends. Despite those expenditures, FL's cash totaled $849 million at the end of the latest quarter, while the debt on its balance sheet was $125 million, meaning net cash per share of almost $6.00.

"Our financial position remains strong, as are our connections to youth culture," concluded Ms. Peters. "We announced last week that our Board of Directors has authorized another double-digit percentage increase in our quarterly dividend to $0.345 per share, and approved a $230 million capital expenditures program for 2018, both of which actions reflect the Board's confidence in our ability to fund and execute the initiatives necessary to transform the business while also continuing to return cash to shareholders."

While we believe the operating landscape remains challenging in the near-term, we think that better times are on the horizon. Yes, changing consumer preferences and growing competition from Amazon and others are perpetual issues, but FL has historically been able to turn in strong results, with opportunities across distribution channels, geographic locations, banners and product categories. We believe the company has been doing the right things to evolve and has begun to turn things around with its strategic cost control and productivity plans, willingness to shutter non-essential locations, partnerships with shoe makers on specialty sneakers and solid growth of its digital shopping platforms. Further, we like the balance sheet, the forward P/E ratio of 8.8 and the 3.5% dividend yield. Our Target Price for FL has been shaved to $73.

Lowe's (LOW – $85.34) saw its shares hammered last week, falling 12% after the home-improvement retailer reported quarterly results that disappointed investors. While revenue of $15.5 billion was better than consensus estimates of $15.3 billion, Lowe's adjusted EPS of $0.74 was 15% below expectations. Same store sales jumped 4% during the period (versus consensus estimates of 3%), but softer margins and a higher tax rate were primary reasons for the bottom-line miss.

"We achieved comparable sales growth that exceeded our expectations driven by compelling consumer messaging, strong holiday event performance, and our integrated omni-channel customer experiences," commented CEO Robert A. Niblock. "As we enter 2018, we are working diligently to improve execution with a focus on conversion, gross margin, and inventory management. Given the rapidly evolving competitive landscape, we are also accelerating our strategic investments leveraging the benefits of tax reform. We continue to build the capabilities required to deliver simple and seamless experiences and strengthen our position as the omni-channel project authority."



Management introduced coming full-year guidance, including adjusted EPS of $5.40 to $5.50 (below analyst expectations), 3.5% comparable sales growth, 4.0% overall sales growth and slightly softer EBIT margins than expected due to margin weakness driven by accelerated investments. The company says it now expects to open 10 home improvement stores in 2018. Given a string of inconsistent quarterly results versus communicated expectations, we wouldn't be surprised if management has set its initial guidance at levels that the company can more realistically achieve.

We remain fans of LOW, and think the sell-off creates an opportunity for investors to start a position or add to an undersized existing position. Last quarter comps were solid, and expectations for the coming year are good too. We think that the housing market will remain healthy, which bodes well for all home improvement retailers. Additionally, we would not be surprised if initial management estimates were conservative as to not once again over-promise and under-deliver. LOW shares now trade at 15.4 times NTM earnings expectations, noting that rival Home Depot trades at 18.8 times. Despite our long-term optimism, we have trimmed our Target Price to $116.

Shares of department store **Kohl's** (KSS – $66.50) fell sharply on Thursday, despite reporting fiscal Q4 2018 financial results that beat consensus analyst estimates. KSS posted adjusted EPS of $1.87 for Q4, on revenue of $6.78 billion, versus expectations of $1.77 and $6.74 billion, respectively. Although top and bottom-line results were positive surprises, shares seemingly dropped on Q1 forecasts, and a lack of an update on Amazon and the trial that has been going on that has Kohl's using selective stores as drop-off/pick-up locations for Amazon consumers (which obviously brings foot traffic into the stores). Of course, illustrating the inefficiency of the markets, KSS shares rallied sharply on Friday, along with a number of other retailers, and ended the week essentially flat.

Chairman and CEO Kevin Mansell said, "I am very pleased with our fourth quarter and full year results, which exceeded the high end of our most recent guidance by $0.11 per share. Over the course of the year, we saw consistent, sustained improvement in sales trends which culminated in a 6.3% increase in our fourth quarter comp sales. We improved our merchandise margins through strong inventory management and improved promotional and permanent markdowns. All areas effectively managed their expenses. And, we ended the year with 7% less inventory. I am very proud of our team and the role they played in these results and want to thank them for their hard work, loyalty and dedication."

Kohl's raised its dividend last week by 11% to $0.61 per share per quarter and the company said it expects earnings per diluted share of $4.95 to $5.45 for fiscal 2018. The EPS guidance was based on management forecasts of comparable sales change of 0% to 2%, total sales change of -1% to 1%, an effective tax rate of 24% to 25%, $300 million to $400 million in share repurchases and capital expenditures of approximately $700 million.

While KSS has been forced to evolve, and continues to go through this process, we have been pleased with the firm's progress. We remain fond of the company's solid free cash flow generation and think that investments it is making in its online business, smaller store concepts and loyalty program will eventually pay off. In our eyes, KSS is still attractively undervalued, now trading for just 12.8 times forward earnings estimates and yielding 3.7%. Our Target Price for KSS has been boosted to $73.