

## MARKET COMMENTARY MONDAY, MARCH 26, 2018

### EXECUTIVE SUMMARY

Week in Review – 85th Worst in History but Value Beat Growth  
 Trump Tariffs – Tough Talk but Plenty of Negotiation Ahead  
 Fund Flows – Traders Can't Seem to Get it Right  
 Buy Signals – ETF Exodus, Fear & Technical Support  
 FOMC Meeting – Fed Funds Rate Increase, Modestly Better Econ/Lower Unemployment Outlook  
 Don't Feat the Fed – Rate Hike Perspective  
 Shopping List – 25 Bargains Down 7.5% or More Last Week  
 Stock News – Updates on ORCL, FDX, COHU, NKE & CCL

### Market Review

Alas, what we saw last week was not what we had in mind when we wrote a week ago in this space that it might be time for Value to outperform. The good news that the Russell 3000 Value index beat the Russell 3000 Growth index by 70 basis points (0.70%) over the last five trading sessions was crushed by the fact that equities suffered a terrible week, with the Russell 3000 and S&P 500 skidding 5.72% and 5.89%, respectively.

The price-weighted Dow Jones Industrial Average grabbed most of the headlines, despite dipping “only” 5.63%, as the big 724-point plunge on Thursday invited journalistic superlatives like “fifth-worst point drop in history.” While this was factually correct, it is important to note there have been plenty of worse days on a percentage basis,...



Days like March 22, 2018, are rare, but since 1927 there have been 305 other times when the Dow lost at least 2.93% in one trading session.

|                   | 1920's    | 1930's     | 1940's    | 1950's   | 1960's   | 1970's   | 1980's    | 1990's    | 2000's    | 2010's    | Totals     |
|-------------------|-----------|------------|-----------|----------|----------|----------|-----------|-----------|-----------|-----------|------------|
| Years Ending in 0 | 20        | 6          | 2         | 0        | 1        | 0        | 3         | 4         | 3         |           | 39         |
| Years Ending in 1 | 35        | 0          | 0         | 1        | 0        | 0        | 1         | 5         | 6         |           | 48         |
| Years Ending in 2 | 51        | 0          | 0         | 1        | 0        | 1        | 0         | 5         | 0         |           | 58         |
| Years Ending in 3 | 25        | 1          | 0         | 0        | 2        | 0        | 0         | 1         | 0         |           | 29         |
| Years Ending in 4 | 4         | 0          | 0         | 0        | 2        | 0        | 0         | 0         | 0         |           | 6          |
| Years Ending in 5 | 0         | 0          | 1         | 0        | 0        | 0        | 0         | 0         | 2         |           | 3          |
| Years Ending in 6 | 3         | 5          | 0         | 0        | 0        | 2        | 1         | 0         | 1         |           | 12         |
| Years Ending in 7 | 16        | 1          | 0         | 0        | 0        | 9        | 2         | 1         | 0         |           | 29         |
| Years Ending in 8 | 3         | 9          | 2         | 0        | 0        | 3        | 5         | 21        | 3         |           | 46         |
| Years Ending in 9 | 20        | 5          | 0         | 0        | 0        | 1        | 1         | 0         | 9         |           | 36         |
| <b>Totals</b>     | <b>23</b> | <b>168</b> | <b>15</b> | <b>3</b> | <b>2</b> | <b>6</b> | <b>16</b> | <b>12</b> | <b>46</b> | <b>15</b> | <b>306</b> |

From 12.31.27 through 03.23.18. Days of index price return drops of more than 2.93%. SOURCE: Al Frank using data from Bloomberg

|                   | 1920's    | 1930's     | 1940's   | 1950's   | 1960's   | 1970's    | 1980's    | 1990's    | 2000's    | 2010's   | Totals     |
|-------------------|-----------|------------|----------|----------|----------|-----------|-----------|-----------|-----------|----------|------------|
| Years Ending in 0 | 10        | 3          | 0        | 0        | 2        | 1         | 1         | 3         | 1         |          | 21         |
| Years Ending in 1 | 25        | 1          | 0        | 0        | 1        | 0         | 3         | 4         | 5         |          | 39         |
| Years Ending in 2 | 44        | 0          | 0        | 3        | 0        | 5         | 0         | 12        | 0         |          | 64         |
| Years Ending in 3 | 35        | 0          | 0        | 1        | 3        | 0         | 0         | 3         | 0         |          | 40         |
| Years Ending in 4 | 3         | 0          | 0        | 0        | 9        | 2         | 0         | 0         | 0         |          | 14         |
| Years Ending in 5 | 0         | 0          | 0        | 0        | 1        | 0         | 0         | 0         | 1         |          | 2          |
| Years Ending in 6 | 0         | 3          | 0        | 0        | 0        | 0         | 0         | 0         | 0         |          | 3          |
| Years Ending in 7 | 6         | 0          | 1        | 0        | 0        | 8         | 3         | 0         | 0         |          | 18         |
| Years Ending in 8 | 2         | 13         | 0        | 0        | 0        | 1         | 3         | 4         | 19        |          | 42         |
| Years Ending in 9 | 12        | 4          | 0        | 0        | 0        | 0         | 1         | 0         | 8         |          | 25         |
| <b>Totals</b>     | <b>14</b> | <b>138</b> | <b>7</b> | <b>1</b> | <b>4</b> | <b>17</b> | <b>20</b> | <b>11</b> | <b>49</b> | <b>7</b> | <b>268</b> |

From 12.31.27 through 03.23.18. Days of index price return gains of more than 2.93%. SOURCE: Al Frank using data from Bloomberg

...though Friday's 425-point follow-on Dow decline didn't inspire a lot of confidence. Of course, though many are of the mind that the plunge on the week was one of the worst ever, the

setback on the S&P 500 actually clocked in as the 85th largest decline since 1928. Not much in the way of consolation, we know, but given that there have been 90 years or so of data, a drop of similar or greater magnitude on a weekly basis has happened once a year on average.

Certainly, we respect that outsized moves to the downside can be disconcerting, even as volatility generally is a regular part of the successful long-term investment process. Indeed, even though equities have enjoyed returns of 10.6% per annum (Dividend Payers) and 13.4% per annum (Value Stocks) since 1927, 5% dips have occurred more than twice a year on average and 10% corrections have taken place every 11 months or so on average,...

**AFAM** 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 | Average Count | Frequency (in Years) | Last Start | Last End  |
| 20.0%             | 107.6%       | 907            | 25            | 3.5                  | 3/9/2009   | 1/28/2018 |
| 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  | 1/28/2018 |
| 7.5%              | 23.3%        | 146            | 153           | 0.6                  | 2/8/2018   | 3/9/2018  |
| 5.0%              | 14.7%        | 72             | 295           | 0.3                  | 2/8/2018   | 3/9/2018  |

| Declining Markets |              |                |               |                      |            |           |
|-------------------|--------------|----------------|---------------|----------------------|------------|-----------|
| Minimum Decline % | Average Loss | Average # Days | Average Count | Frequency (in Years) | Last Start | Last End  |
| -20.0%            | -34.3%       | 371            | 25            | 3.5                  | 1/8/2009   | 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                  | 1/28/2018  | 2/8/2018  |
| -7.5%             | -15.4%       | 65             | 152           | 0.6                  | 1/26/2018  | 2/8/2018  |
| -5.0%             | -10.9%       | 37             | 295           | 0.4                  | 3/9/2018   | 3/23/2018 |

From 02/20/28 through 3/23/18. 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 an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: AI Frank using data from Bloomberg, Morningstar and Ibbotson Associates

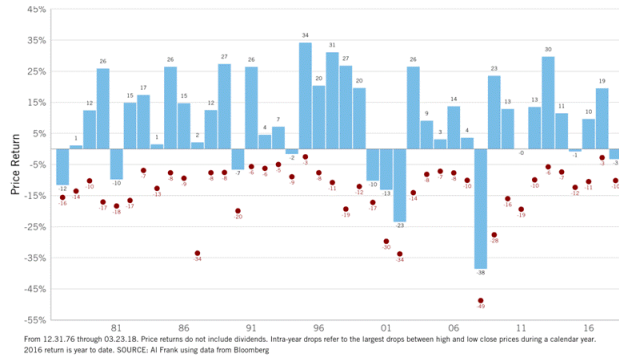
| LONG-TERM RETURNS          |                   |                    |
|----------------------------|-------------------|--------------------|
|                            | Annualized Return | Standard Deviation |
| Value Stocks               | 13.4%             | 26.0%              |
| Growth Stocks              | 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 S&P US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates S&P US LT Gov't Total Return index. Intermediate term government bonds represented by the Ibbotson Associates S&P US IT Gov't Total Return index. Treasury bills represented by the Ibbotson Associates S&P US 30 Day TBILL Total Return index. Inflation represented by the Ibbotson Associates S&P US Inflation index. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

...including in more than 60% of the years since the launch of *The Prudent Speculator* in 1977.

**AFAM** THE PRUDENT SPECULATOR  
A Big Selloff Happens Almost Every Year

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, including the current one.



While one might argue that stocks have been overdue for some rough waters, and the unfolding Facebook data scandal didn't help matters for the heretofore top-performing Information

Technology sector, the primary catalyst for last week's carnage was renewed fears of a Trade War after President Trump announced plans to impose tariffs on as much as \$60 billion of Chinese imports. The proclamation elicited a somewhat modest response from Beijing, which announced tariffs of its own on as much as \$3 billion in U.S. goods, including products like fruit, pork and recycled aluminum, but not on soybeans, airplanes, electronics and other high-profile items.

No doubt, the Middle Kingdom is a formidable adversary should the tit-for-tat escalate, but we are of the mind that last week marked the opening salvos of a lengthy negotiation process that could in the long run lead to greater opportunities for U.S. businesses in China. That is the objective, as outlined by U.S. Treasury Secretary Steven Mnuchin this weekend who said that the proposed tariffs won't have a big impact on the economy in the near term, adding, "I think what we are doing is long-term very good for the economy." Mr. Mnuchin added, "If they open up their markets it is an enormous opportunity for U.S. companies. We are having very productive conversations with them."

Late Sunday, it was announced that the two sides have "quietly started negotiations," which hardly seems surprising, given that Trump tariffs on steel (25%) and aluminum (10%) revealed a few weeks ago have already been subject to numerous exemptions for American allies. Certainly, anything can happen, and proclamations from the Commander in Chief are often anything but orthodox, but we might chalk up the tough Trump trade talk to the art of the deal, with cooler heads eventually prevailing.

Obviously, Washington remains a very large wild card, though we shouldn't let the recent drama obscure the fact that stocks generally have had very good returns since Election Day 2016,...

| THE PRUDENT SPECULATOR                |          |          |             |                |                              |  |
|---------------------------------------|----------|----------|-------------|----------------|------------------------------|--|
| Trump: Pro-Business or Protectionist? |          |          |             |                |                              |  |
| Returns Race                          |          |          |             |                |                              |  |
| 2018 YTD                              | 2017     | 2016     | Since Trump | Bloomberg      | Index                        |  |
| Return %                              | Return % | Return % | Election    | Symbol         |                              |  |
| Stock Indexes                         |          |          |             |                |                              |  |
| -4.28                                 | 28.11    | 16.50    | 22.69       | INDU Index     | Dow Jones Industrial Average |  |
| 1.55                                  | 29.73    | 8.97     | 36.84       | CCMP Index     | NASDAQ Composite Index       |  |
| -2.63                                 | 21.68    | 12.04    | 24.60       | RY Index       | Russell 1000 Index           |  |
| -1.40                                 | 14.63    | 21.28    | 28.66       | RTY Index      | Russell 2000 Index           |  |
| -2.54                                 | 21.12    | 12.72    | 24.90       | RAY Index      | Russell 3000 Index           |  |
| -2.76                                 | 21.82    | 11.95    | 24.35       | SPX Index      | S&P 500 Index                |  |
| -0.14                                 | 30.21    | 7.07     | 33.65       | RLG Index      | Russell 1000 Growth Index    |  |
| -5.16                                 | 13.64    | 17.33    | 15.92       | RLV Index      | Russell 1000 Value Index     |  |
| 1.37                                  | 22.14    | 11.28    | 36.38       | RUO Index      | Russell 2000 Growth Index    |  |
| -4.38                                 | 7.82     | 31.72    | 21.03       | RUJ Index      | Russell 2000 Value Index     |  |
| -0.03                                 | 29.58    | 7.38     | 33.85       | RAG Index      | Russell 3000 Growth Index    |  |
| -5.10                                 | 13.17    | 18.38    | 16.30       | RAV Index      | Russell 3000 Value Index     |  |
| 0.28                                  | 27.43    | 6.89     | 30.52       | SGX Index      | S&P 500 Growth Index         |  |
| -5.94                                 | 15.35    | 17.39    | 17.11       | SVX Index      | S&P 500 Value Index          |  |
| Largest Bond Funds                    |          |          |             |                |                              |  |
| -1.91                                 | 3.57     | 0.79     | -0.62       | VBIX Equity    | Vanguard Tot Bd Mkt Idx-Inst |  |
| -1.94                                 | 3.53     | 0.75     | -0.74       | VTBX Equity    | Vanguard Tot Bnd Mkt II-Inv  |  |
| -0.95                                 | 8.17     | 0.82     | 7.94        | PCORX Equity   | Pimco Income Fund-A          |  |
| 0.63                                  | 2.39     | 0.81     | 2.29        | VTABX Equity   | Vanguard Tl Intl Bnd-Adm     |  |
| -1.78                                 | 3.10     | 0.76     | -0.64       | MWTRX Equity   | MtrpIn Wst Ttl Rtrn Bnd-M    |  |
| -1.52                                 | 5.13     | 0.73     | 1.67        | PTTRX Equity   | Pimco Total Return Fund-Inst |  |
| -0.84                                 | 7.36     | 0.63     | 7.19        | PIMINIA Equity | Pimco Gis-Income Fund-Ins Ac |  |
| -0.67                                 | 2.02     | -0.01    | 0.57        | VFSTX Equity   | Vanguard S/T Invest Grd-Inv  |  |
| -1.28                                 | 4.53     | 0.21     | 0.50        | VWVFX Equity   | Vanguard Intl Trm TFE-Inv    |  |
| -1.24                                 | 4.36     | 0.63     | 2.01        | DODDX Equity   | Dodge & Cox Income           |  |
| -0.73                                 | 3.79     | 0.51     | 1.59        | DBLTX Equity   | Doubleline Tl Rtrn Bnd-I     |  |
| -0.47                                 | 1.89     | 0.07     | 1.20        | LDLAX Equity   | Lord Abbett Shrt Dur Inc-C   |  |

Source: Bloomberg. As of 3.23.18

Though we understand that the equity markets stumbled badly in the latest week following the announcement of tariff plans for up to \$60 billion in Chinese imports, triggering fears of a Trade War, equities have still enjoyed sizable gains since the 2016 Presidential Election, especially compared to bonds, even as high-flying Growth stocks like Amazon, Alphabet and Tesla have been the big winners.

...though we suspect that many investors have not fully participated in the favorable environment, given recent data on mutual and exchange traded fund flows.

**AFAM CAPITAL** THE PRUDENT SPECULATOR  
The Only Problem with Market Timing...

It is always stunning to see how so many mutual fund owners seem to be awful market timers, buying high and selling low, with the big inflows into U.S. stocks right near the Jan 26, 2018 all-time high giving way to big outflows right near the Feb 8, 2018 low...and then huge inflows the week of Mar 14, 2018, just before stocks plunged anew.



| 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            |
| <b>Total</b> | <b>-27,363</b> | <b>21,866</b> | <b>40,028</b> | <b>20,941</b> | <b>36,348</b> |

| Week Ended   | 3/14/2018     | 3/7/2018      | 2/28/2018     | 2/21/2018    | 2/14/2018      |
|--------------|---------------|---------------|---------------|--------------|----------------|
| Total Equity | 25,219        | -6,453        | 11,703        | 2,505        | 1,517          |
| Domestic     | 19,080        | -10,974       | 6,397         | -4,899       | -7,562         |
| World        | 6,139         | 4,521         | 5,306         | 7,405        | 9,079          |
| Hybrid       | -611          | -500          | -422          | -965         | -1,456         |
| Total Bond   | 8,440         | 1,521         | 5,177         | 4,452        | -12,114        |
| Taxable      | 7,737         | 1,307         | 5,067         | 3,970        | -11,474        |
| Municipal    | 703           | 214           | 110           | 481          | -640           |
| Commodity    | 30            | 210           | 278           | 477          | 189            |
| <b>Total</b> | <b>33,079</b> | <b>-5,222</b> | <b>16,736</b> | <b>6,469</b> | <b>-11,864</b> |

Happily, given that many folks often zig when they should have zagged, a few contrarian buy signals were generated last week, including on ETF redemptions...

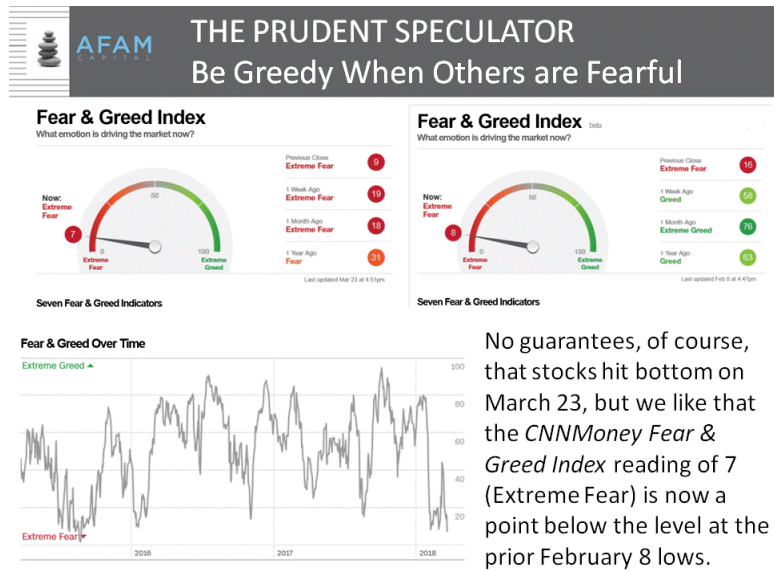
**AFAM CAPITAL** THE PRUDENT SPECULATOR  
Contrarian Buy Signal?

Not surprisingly, we suppose, given the big plunge endured last week, Exchange Traded Fund (ETF) flows saw investors flee U.S. equities, with a massive \$38.2 billion exodus, or nearly 2% of the entire market cap!

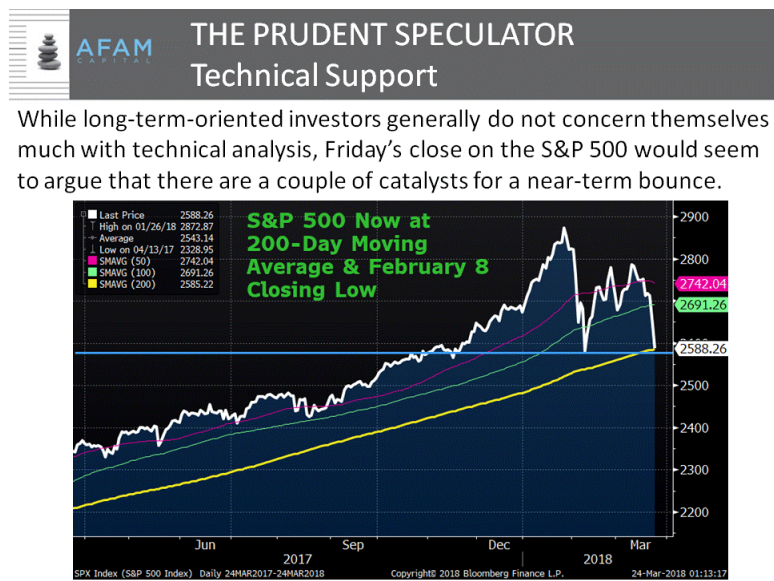
| Asset Class             | # Funds      | Net Flows (MM)     | Beg Mkt Cap (MM)    | % Funds Mkt Cap |
|-------------------------|--------------|--------------------|---------------------|-----------------|
| <b>Equity</b>           | 1,459        | (39,140.23)        | 2,836,808.20        | (1.4%)          |
| International           | 668          | (845.96)           | 820,755.13          | (0.1%)          |
| Domestic (US)           | 790          | (38,294.27)        | 2,016,053.07        | (1.9%)          |
| <b>Fixed Income</b>     | 349          | 965.43             | 564,386.25          | 0.2%            |
| International           | 80           | 297.62             | 58,782.72           | 0.5%            |
| Domestic (US)           | 269          | 667.81             | 505,603.53          | 0.1%            |
| <b>Alternative</b>      | 79           | (179.49)           | 4,689.29            | (3.8%)          |
| <b>Asset Allocation</b> | 51           | (2.09)             | 6,956.46            | (0.0%)          |
| <b>Currency</b>         | 48           | (10.30)            | 2,248.15            | (0.5%)          |
| <b>Commodity</b>        | 177          | 577.27             | 71,354.99           | 0.8%            |
| <b>Derivative</b>       | 3            | -                  | 3.31                | -               |
| <b>Other</b>            | 6            | -                  | 5,483.25            | -               |
| <b>Total</b>            | <b>2,172</b> | <b>(37,789.41)</b> | <b>3,491,929.91</b> | <b>(1.1%)</b>   |

...and investor sentiment,...






...augmenting the technical analysis support level at which the S&P 500 presently resides.



To be sure, there was another significant market-related event last week, when the Federal Reserve decided to boost its target for the Federal Funds rate by 25 basis points (0.25%) to a range of 1.50% to 1.75%. That move was a near-certainty, and the FOMC Statement reiterated the long-held admonition, “The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”



**THE PRUDENT SPECULATOR**  
FOMC Statement: March 21, 2018

*Information received since the FOMC met in January indicates that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate. Job gains have been strong in recent months, and the unemployment rate has stayed low. Recent data suggest that growth rates of household spending and business fixed investment have moderated from their strong fourth-quarter readings. On a 12-month basis, both overall inflation and inflation for items other than food and energy have continued to run below 2%. Market-based measures of inflation compensation have increased in recent months but remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.*

*The economic outlook has strengthened in recent months. The Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace in the medium term and labor market conditions will remain strong. Inflation on a 12-month basis is expected to move up in coming months and to stabilize around the Committee's 2% objective over the medium term. Near-term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.*

*In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4%. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2% inflation.*

*The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.*

New Fed Chair Jerome Powell & Co. modestly upgraded their 2018 outlook for GDP growth and lowered their estimates for unemployment both short- and long-term,...



**THE PRUDENT SPECULATOR**  
Subdued LT Economic Growth Expected

The Fed left its longer-run projection for GDP growth at 1.8%, though its outlook for 2018 growth increased to 2.7%, up from 2.5%. The long-run forecast for the Federal Funds rate was bumped up a tenth to 2.9%.

**Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2018**  
Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

| Variable                                | Median <sup>1</sup> |      |      |            | Central tendency <sup>2</sup> |         |         |            | Range <sup>3</sup> |         |         |            |
|---|---------------------|------|------|------------|-------------------------------|---------|---------|------------|--------------------|---------|---------|------------|
|   | 2018                | 2019 | 2020 | Longer run | 2018                          | 2019    | 2020    | Longer run | 2018               | 2019    | 2020    | Longer run |
| Change in real GDP                      | 2.7                 | 2.4  | 2.0  | 1.8        | 2.6-3.0                       | 2.2-2.6 | 1.8-2.1 | 1.8-2.0    | 2.5-3.0            | 2.0-2.8 | 1.5-2.3 | 1.7-2.2    |
| December projection                     | 2.5                 | 2.1  | 2.0  | 1.8        | 2.2-2.6                       | 1.9-2.3 | 1.7-2.0 | 1.8-1.9    | 2.2-2.8            | 1.7-2.4 | 1.1-2.2 | 1.7-2.2    |
| Unemployment rate                       | 3.8                 | 3.6  | 3.6  | 4.5        | 3.6-3.8                       | 3.4-3.7 | 3.5-3.8 | 4.3-4.7    | 3.6-4.0            | 3.3-4.2 | 3.3-4.4 | 4.2-4.8    |
| December projection                     | 3.9                 | 3.9  | 4.0  | 4.6        | 3.7-4.0                       | 3.6-4.0 | 3.6-4.2 | 4.4-4.7    | 3.6-4.0            | 3.5-4.2 | 3.5-4.5 | 4.3-5.0    |
| PCE inflation                           | 1.9                 | 2.0  | 2.1  | 2.0        | 1.8-2.0                       | 2.0-2.2 | 2.1-2.2 | 2.0        | 1.8-2.1            | 1.9-2.3 | 2.0-2.3 | 2.0        |
| December projection                     | 1.9                 | 2.0  | 2.0  | 2.0        | 1.7-1.9                       | 2.0     | 2.0-2.1 | 2.0        | 1.7-2.1            | 1.8-2.3 | 1.9-2.2 | 2.0        |
| Core PCE inflation <sup>4</sup>         | 1.9                 | 2.1  | 2.1  |            | 1.8-2.0                       | 2.0-2.2 | 2.1-2.2 |            | 1.8-2.1            | 1.9-2.3 | 2.0-2.3 |            |
| December projection                     | 1.9                 | 2.0  | 2.0  |            | 1.7-1.9                       | 2.0     | 2.0-2.1 |            | 1.7-2.0            | 1.8-2.3 | 1.9-2.3 |            |
| Memo: Projected appropriate policy path |                     |      |      |            |                               |         |         |            |                    |         |         |            |
| Federal funds rate                      | 2.1                 | 2.9  | 3.4  | 2.9        | 2.1-2.4                       | 2.8-3.4 | 3.1-3.6 | 2.8-3.0    | 1.6-2.6            | 1.6-3.9 | 1.6-4.9 | 2.3-3.5    |
| December projection                     | 2.1                 | 2.7  | 3.1  | 2.8        | 1.9-2.4                       | 2.4-3.1 | 2.6-3.1 | 2.8-3.0    | 1.1-2.6            | 1.4-3.6 | 1.4-4.1 | 2.3-3.0    |

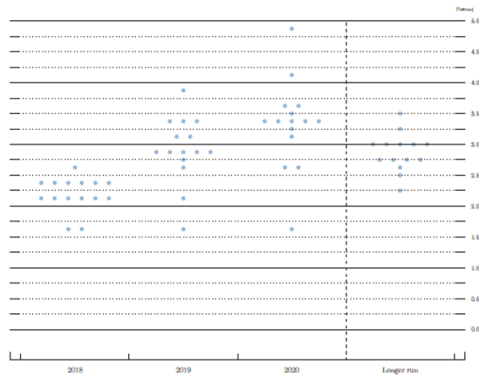
Source: Federal Reserve, March 21, 2018

...while suggesting that the Fed Funds rate might be a little higher at the end of 2019 and 2020 than previously expected,...

AFAM CAPITAL THE PRUDENT SPECULATOR FOMC Fed Funds Rate Targets: Mar 2018

| Midpoint of Target Range | 2018 | 2019 | 2020 | Longer run |
|--------------------------|------|------|------|------------|
| 1.500                    |      |      |      |            |
| 1.625                    | 2    | 1    | 1    |            |
| 1.750                    |      |      |      |            |
| 1.875                    |      |      |      |            |
| 2.000                    |      |      |      |            |
| 2.125                    | 6    | 1    |      |            |
| 2.250                    |      |      |      | 1          |
| 2.375                    | 6    |      |      |            |
| 2.500                    |      |      |      | 1          |
| 2.625                    | 1    | 1    | 2    | 1          |
| 2.750                    |      |      |      | 4          |
| 2.875                    |      | 5    |      |            |
| 3.000                    |      |      |      | 5          |
| 3.125                    | 2    | 1    |      |            |
| 3.250                    |      |      | 1    | 1          |
| 3.375                    |      | 3    | 5    |            |
| 3.500                    |      |      | 1    | 1          |
| 3.625                    |      |      | 2    |            |
| 3.750                    |      |      |      |            |
| 3.875                    |      | 1    |      |            |
| 4.000                    |      |      |      |            |
| 4.125                    |      |      | 1    |            |
| 4.250                    |      |      |      |            |
| 4.375                    |      |      |      |            |
| 4.500                    |      |      |      |            |
| 4.625                    |      |      |      |            |
| 4.750                    |      |      |      |            |
| 4.875                    |      |      | 1    |            |
| 5.000                    |      |      |      |            |

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

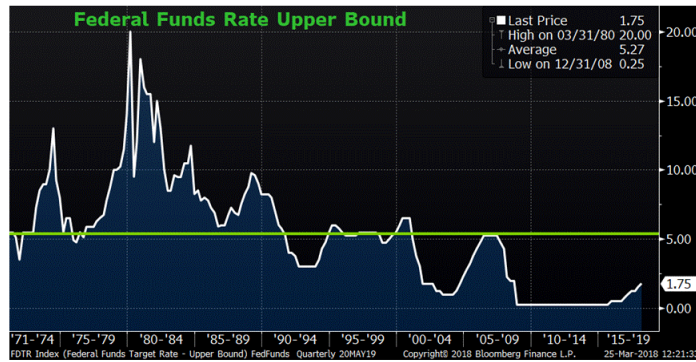


Source: Federal Reserve, March 21, 2018

...even as said rate will likely remain extraordinarily low by historical standards,...

AFAM CAPITAL THE PRUDENT SPECULATOR Lots Of Hikes Needed To Reach "Normal"

Folks should not be too worried about additional interest rate hikes, given that Janet Yellen & Co. presently project that the long-run target for the Fed Funds rate is 2.9%, well below the long-term 5.3% average.



...and near-term market expectations of additional rate increases this year have actually been tamped down the last few days.

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

| 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%     | 80.0%    | 20.0%  | 0.0%   | 0.0%     | 0.0%     | 0.0%   | 0.0%   |
| 05/02/2018 | 100.0%    | 0.0%     | 74.9%    | 23.8%  | 1.3%   | 0.0%     | 0.0%     | 0.0%   | 0.0%   |
| 06/13/2018 | 100.0%    | 0.0%     | 19.8%    | 61.4%  | 17.9%  | 0.9%     | 0.0%     | 0.0%   | 0.0%   |
| 08/01/2018 | 100.0%    | 0.0%     | 17.3%    | 56.2%  | 23.3%  | 3.0%     | 0.1%     | 0.0%   | 0.0%   |
| 09/26/2018 | 100.0%    | 0.0%     | 7.7%     | 34.6%  | 41.6%  | 14.3%    | 1.7%     | 0.1%   | 0.0%   |
| 11/08/2018 | 100.0%    | 0.0%     | 6.4%     | 30.2%  | 40.5%  | 18.8%    | 3.8%     | 0.3%   | 0.0%   |
| 12/19/2018 | 100.0%    | 0.0%     | 4.0%     | 21.3%  | 36.6%  | 26.9%    | 9.4%     | 1.6%   | 0.1%   |
| 01/30/2019 | 100.0%    | 0.0%     | 3.6%     | 19.5%  | 35.1%  | 27.9%    | 11.2%    | 2.4%   | 0.3%   |

Despite an upgrade to the economic outlook at the March 21, 2018 FOMC Meeting, the chance of four or more rate hikes this year has dropped from 38.0% pre-Fed-confab to 32.8% today.

| 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 |
|------------|-----------|----------|----------|--------|--------|----------|----------|--------|--------|
| 05/02/2018 | 25.7%     | 0.0%     | 74.3%    | 25.7%  | 0.0%   | 0.0%     | 0.0%     | 0.0%   | 0.0%   |
| 06/13/2018 | 80.9%     | 0.0%     | 19.1%    | 61.9%  | 19.1%  | 0.0%     | 0.0%     | 0.0%   | 0.0%   |
| 08/01/2018 | 81.7%     | 0.0%     | 18.3%    | 60.1%  | 20.8%  | 0.8%     | 0.0%     | 0.0%   | 0.0%   |
| 09/26/2018 | 91.9%     | 0.0%     | 8.1%     | 36.7%  | 42.8%  | 12.0%    | 0.4%     | 0.0%   | 0.0%   |
| 11/08/2018 | 92.8%     | 0.0%     | 7.2%     | 33.6%  | 42.1%  | 15.3%    | 1.7%     | 0.0%   | 0.0%   |
| 12/19/2018 | 95.5%     | 0.0%     | 4.5%     | 23.8%  | 39.0%  | 25.3%    | 6.8%     | 0.7%   | 0.0%   |
| 01/30/2019 | 95.8%     | 0.0%     | 4.2%     | 22.3%  | 37.7%  | 26.4%    | 8.2%     | 1.1%   | 0.1%   |

Source: Bloomberg

We realize that many are concerned about higher interest rates, but we like what Mr. Powell had to say when asked at his first press conference on Wednesday about the Fed Funds rate now residing at close to a 10-year high: "I'm hearing this, the 10-year thing, a few times these days, and it's true that rates are higher than they've been in 10 years. On the other hand, the economy's healthier than it's been since before the financial crisis. So, it's a healthier economy than it's been in 10 years. The financial crisis, of course, was just really getting going 10 years ago."

We continue to believe that economic strength, especially when it is not accompanied by elevated inflation, is a positive for equities, given that it presents a favorable backdrop for corporate profits,...

**AFAM** THE PRUDENT SPECULATOR  
Significant EPS Growth Estimated

| Quarter Ended    | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
|------------------|---------------------------------|----------------------------------|
| <b>ESTIMATES</b> |                                 |                                  |
| 12/31/2019       | \$46.20                         | \$172.49                         |
| 9/30/2019        | \$44.26                         | \$168.11                         |
| 6/30/2019        | \$42.43                         | \$163.96                         |
| 3/31/2019        | \$39.60                         | \$160.02                         |
| 12/31/2018       | \$41.82                         | \$156.05                         |
| 9/30/2018        | \$40.11                         | \$148.08                         |
| 6/30/2018        | \$38.49                         | \$139.30                         |
| 3/31/2018        | \$35.63                         | \$131.32                         |
| 12/31/2017       | \$33.85                         | \$124.51                         |
| <b>ACTUAL</b>    |                                 |                                  |
| 9/30/2017        | \$31.33                         | \$118.56                         |
| 6/30/2017        | \$30.51                         | \$115.92                         |
| 3/31/2017        | \$28.82                         | \$111.11                         |
| 12/31/2016       | \$27.90                         | \$106.26                         |
| 9/30/2016        | \$28.69                         | \$101.42                         |
| 6/30/2016        | \$26.70                         | \$98.17                          |
| 3/31/2016        | \$23.97                         | \$98.61                          |
| 12/31/2015       | \$23.06                         | \$100.45                         |
| 9/30/2015        | \$25.44                         | \$104.14                         |
| 6/30/2015        | \$26.14                         | \$108.30                         |
| 3/31/2015        | \$25.81                         | \$111.50                         |
| 12/31/2014       | \$26.75                         | \$113.01                         |

Source: Standard & Poor's. As of 3/22/18

History shows that stock prices generally have followed earnings, so it is nice to see actual and projected EPS moving up, even as earnings forecasts often turn out to be too optimistic. Happily, the number of companies exceeding expectations in 2017 was nicely better than the average earnings-beat rate over the prior 5 years.

|         | S&P 500 Quarterly Earnings Comparisons |        |       |                |              |              |             |
|---------|--|--------|-------|----------------|--------------|--------------|-------------|
|         | BEAT                                   | MISSED | MET   | BEAT           | MISSED       | MET          |             |
| Q4 2017 | 73.5%                                  | 18.1%  | 8.4%  | Q1 2015        | 67.7%        | 22.9%        | 9.4%        |
| Q3 2017 | 72.4%                                  | 19.3%  | 8.2%  | Q4 2014        | 68.6%        | 21.0%        | 10.4%       |
| Q2 2017 | 70.2%                                  | 20.1%  | 9.7%  | Q3 2014        | 73.7%        | 17.2%        | 9.0%        |
| Q1 2017 | 74.0%                                  | 18.9%  | 7.2%  | Q2 2014        | 65.7%        | 21.2%        | 13.0%       |
| Q4 2016 | 67.3%                                  | 22.0%  | 10.8% | Q1 2014        | 67.1%        | 22.6%        | 10.2%       |
| Q3 2016 | 70.5%                                  | 21.1%  | 8.4%  | Q4 2013        | 63.9%        | 25.3%        | 10.8%       |
| Q2 2016 | 70.2%                                  | 20.9%  | 8.9%  | Q3 2013        | 66.1%        | 23.2%        | 10.6%       |
| Q1 2016 | 72.3%                                  | 20.6%  | 7.0%  | Q2 2013        | 65.4%        | 26.8%        | 7.8%        |
| Q4 2015 | 68.8%                                  | 21.6%  | 9.7%  | Q1 2013        | 65.9%        | 25.9%        | 8.2%        |
| Q3 2015 | 67.9%                                  | 23.0%  | 9.0%  | Q4 2012        | 64.8%        | 24.8%        | 10.4%       |
| Q2 2015 | 69.8%                                  | 22.0%  | 8.3%  | <b>AVERAGE</b> | <b>68.9%</b> | <b>21.8%</b> | <b>9.3%</b> |

Source: Standard & Poor's and Bloomberg



...while long-term-oriented investors should take comfort in what the historical evidence shows in regard to increases in the Fed Funds rate and stock, especially Value, returns.

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THE PRUDENT SPECULATOR

Δ in Fed Funds Rate & Value/Growth

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

|                 | Count | Value | Growth | Small | Large |
|-----------------|-------|-------|--------|-------|-------|
| Less than 4.65% | 380   | 14.9% | 11.3%  | 17.0% | 10.1% |
| More than 4.65% | 380   | 14.5% | 8.4%   | 10.2% | 11.3% |
| 3-Month Drop    | 354   | 17.5% | 11.7%  | 15.7% | 11.8% |
| 3-Month Rise    | 402   | 12.3% | 8.3%   | 11.8% | 9.7%  |
| 6-Month Drop    | 342   | 16.6% | 11.9%  | 15.2% | 11.9% |
| 6-Month Rise    | 408   | 13.0% | 8.0%   | 12.1% | 9.4%  |
| 12-Month Drop   | 345   | 14.6% | 10.7%  | 13.2% | 10.7% |
| 12-Month Rise   | 393   | 14.3% | 8.6%   | 13.4% | 10.2% |

From 07.31.54 through 12.31.17. 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 Federal Funds Eff. Rate

|                 | Count | Value | Growth | Small | Large |
|-----------------|-------|-------|--------|-------|-------|
| Less than 4.65% | 382   | 12.9% | 9.4%   | 13.7% | 9.5%  |
| More than 4.65% | 380   | 15.9% | 9.8%   | 12.9% | 11.3% |
| 3-Month Drop    | 354   | 13.9% | 10.2%  | 14.1% | 10.3% |
| 3-Month Rise    | 393   | 14.6% | 8.9%   | 12.4% | 10.3% |
| 6-Month Drop    | 342   | 15.1% | 11.2%  | 15.3% | 11.4% |
| 6-Month Rise    | 402   | 13.4% | 8.0%   | 11.4% | 9.2%  |
| 12-Month Drop   | 345   | 16.2% | 11.5%  | 16.5% | 11.5% |
| 12-Month Rise   | 393   | 12.4% | 7.6%   | 10.2% | 8.8%  |

From 07.31.54 through 12.31.17. Subsequent 12-month return. SOURCE: Al Frank using data from Bloomberg and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising rates will prove fatal for equities, but six decades of returns data show that stocks in general have performed admirably both concurrent with and subsequent to increases in the Fed Funds rate, while Value stocks really assert their dominance when the Fed is tightening monetary policy.

The equity futures on Sunday evening were pointing to a higher opening for today's trading as this missive was penned, but we have to believe that volatility will remain elevated for some time, which is why we always state that our focus is on the long-term prospects of our broadly diversified portfolios of undervalued stocks. True, a strong stomach is a valuable asset during times like these, but with valuations following the downturn now even more reasonable,...

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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 4.8%.

| Series                         | High             | Low             | Average |
|--------------------------------|------------------|-----------------|---------|
| Monthly S&P 500 Earnings Yield | 14.37 (04/30/80) | 3.35 (06/30/99) | 6.61    |
| S&P 500 Dividend Yield         | 6.27 (07/30/62)  | 1.06 (08/31/00) | 2.80    |
| 12-Year U.S. Treasury          | 15.84 (09/30/81) | 1.45 (07/29/16) | 6.33    |

...we see no reason for those who share our three-to-five-year time horizon to disturb their portfolios, aside, perhaps, from adding to their equity exposure. We have our eye on several stocks, and we will have at least one new recommendation to offer in the April edition of *The*

Prudent Speculator, but those looking to go shopping might consider the following 25 names, each of which was off more than 7.5% last week.

AFAM THE PRUDENT SPECULATOR  
March Swoon Bargains

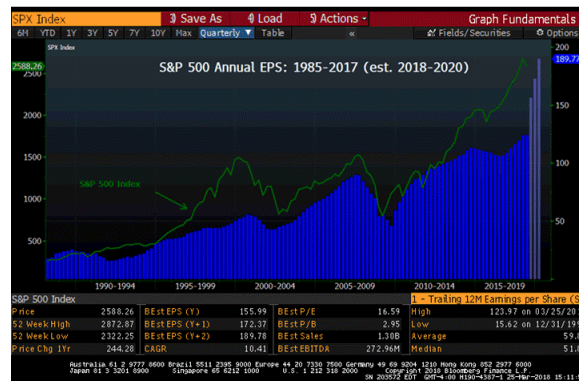
| 2018 Selloff Shopping List |                  |             |          |          |              |                          |      |     |       |        |        |             |         |         |
|----------------------------|------------------|-------------|----------|----------|--------------|--------------------------|------|-----|-------|--------|--------|-------------|---------|---------|
| Symbol                     | Common Stock     | Latest 2018 |          | Price    | Target Price | Sector                   | P/E  | P/S | P/TVB | EBITDA | EV/FCF | Div Yld (%) | Mkt Cap |         |
|                            |                  | WTD TR %    | YTD TR % |          |              |                          |      |     |       |        |        |             |         |         |
| AMGN                       | Amgen            | -10.0       | -1.9     | \$169.43 | \$220.95     | Pharmaceuticals, Biotech | 13.5 | 5.3 | 65.3  | 9.7    | 8.5    | 182.7%      | 3.1%    | 122,085 |
| BAC                        | Bank of America  | -9.3        | -0.8     | \$29.17  | \$36.86      | Banks                    | 15.8 | nmf | 1.7   | nmf    | nmf    | nmf         | 1.6%    | 298,235 |
| BBT                        | BB&T Corp        | -7.9        | 2.7      | \$50.68  | \$62.09      | Banks                    | 16.1 | nmf | 2.4   | nmf    | nmf    | nmf         | 2.6%    | 39,397  |
| BK                         | Bank of New York | -7.8        | -5.4     | \$50.73  | \$62.40      | Diversified Financials   | 14.0 | nmf | 3.1   | nmf    | nmf    | nmf         | 1.9%    | 51,113  |
| CAH                        | Cardinal Health  | -13.0       | 0.7      | \$61.71  | \$93.45      | Health Care Equip/Srvcs  | 11.3 | 0.1 | nmf   | 10.7   | 8.4    | nmf         | 3.0%    | 19,421  |
| CAT                        | Caterpillar      | -7.8        | -8.0     | \$144.29 | \$174.30     | Capital Goods            | 21.0 | 1.9 | 16.0  | 11.9   | 4.0    | 443%        | 2.2%    | 86,231  |
| CE                         | Celanese         | -9.4        | -9.3     | \$96.72  | \$123.77     | Materials                | 12.9 | 2.1 | 8.3   | 13.7   | 4.0    | 209%        | 1.9%    | 13,137  |
| DE                         | Deere & Co       | -9.7        | -5.4     | \$148.00 | \$179.55     | Capital Goods            | 21.7 | 1.5 | 10.7  | 8.5    | -2.0   | 590%        | 1.6%    | 47,921  |
| FDX                        | FedEx            | -8.9        | -7.9     | \$229.48 | \$322.90     | Transportation           | 16.8 | 1.0 | 5.4   | 9.5    | -3.0   | 140%        | 0.9%    | 61,321  |
| FITB                       | Fifth Third Banc | -8.0        | 2.3      | \$31.03  | \$38.15      | Banks                    | 16.9 | nmf | 1.7   | nmf    | nmf    | nmf         | 2.1%    | 21,317  |
| GILD                       | Gilead Sciences  | -8.7        | 2.4      | \$72.84  | \$127.45     | Pharmaceuticals, Biotech | 8.2  | 3.6 | nmf   | 6.0    | 11.9   | nmf         | 3.1%    | 95,275  |
| GS                         | Goldman Sachs    | -8.3        | -3.5     | \$245.26 | \$285.98     | Diversified Financials   | 13.1 | nmf | 1.5   | nmf    | nmf    | nmf         | 1.2%    | 96,542  |
| JBL                        | Jabil Inc        | -8.9        | 9.2      | \$28.59  | \$43.86      | Technology Hardware      | 11.9 | 0.2 | 3.7   | 5.2    | 5.2    | 161%        | 1.1%    | 5,010   |
| JNPR                       | Juniper Networks | -8.3        | -14.8    | \$24.12  | \$37.13      | Technology Hardware      | 11.4 | 1.6 | 5.7   | 6.9    | 12.1   | 147%        | 3.0%    | 8,291   |
| KEY                        | KeyCorp          | -9.2        | -5.1     | \$19.04  | \$25.85      | Banks                    | 13.9 | nmf | 1.7   | nmf    | nmf    | nmf         | 2.2%    | 20,034  |
| MAN                        | ManpowerGroup    | -8.8        | -11.5    | \$111.58 | \$145.25     | Professional Services    | 16.0 | 0.4 | 6.4   | 8.9    | 4.6    | 42%         | 1.7%    | 7,381   |
| MCK                        | McKesson         | -8.7        | -10.6    | \$139.04 | \$212.52     | Health Care Equip/Srvcs  | 11.1 | 0.1 | nmf   | 5.0    | 7.9    | nmf         | 1.0%    | 28,689  |
| MSFT                       | Microsoft        | -7.8        | 2.4      | \$87.18  | \$100.20     | Software & Services      | 26.6 | 6.6 | 19.8  | 15.2   | 4.9    | 216%        | 1.9%    | 671,268 |
| ORCL                       | Oracle           | -14.3       | -4.9     | \$44.79  | \$56.85      | Software & Services      | 14.7 | 4.6 | nmf   | 10.7   | 7.2    | nmf         | 1.7%    | 182,847 |
| QCOM                       | Qualcomm         | -11.5       | -15.5    | \$53.66  | \$73.87      | Semiconductors           | 13.2 | 3.6 | 5.8   | 18.6   | 5.4    | 141%        | 4.6%    | 79,436  |
| SYF                        | Synchrony Fin'l  | -7.6        | -15.5    | \$32.51  | \$50.97      | Diversified Financials   | 12.4 | nmf | 2.0   | nmf    | nmf    | nmf         | 1.8%    | 24,715  |
| TPC                        | Tutor Perini     | -8.0        | -18.1    | \$20.75  | \$37.29      | Capital Goods            | 11.0 | 0.2 | 1.0   | 6.8    | 12.9   | 68%         | 0.0%    | 1,033   |
| WFC                        | Wells Fargo      | -8.8        | -15.5    | \$50.98  | \$67.05      | Banks                    | 13.0 | nmf | 1.7   | nmf    | nmf    | nmf         | 3.1%    | 248,583 |
| WSM                        | Williams-Sonoma  | -9.4        | -2.4     | \$50.11  | \$74.01      | Retailing                | 13.8 | 0.8 | 3.5   | 6.4    | 7.4    | 25%         | 3.4%    | 4,196   |
| ZBH                        | Zimmer Biomet    | -8.0        | -11.0    | \$107.44 | \$170.60     | Health Care Equip/Srvcs  | 13.4 | 2.8 | nmf   | 16.8   | 5.0    | nmf         | 0.9%    | 21,826  |

Stock Updates

With the friendly reminder that we are not simply investing in ticker symbols, but instead we are acquiring and maintaining ownership interests in businesses that generally become more valuable over time as corporate profits increase...

AFAM THE PRUDENT SPECULATOR  
Stock Prices Often Follow Earnings

Market history shows that sustained market downturns usually coincide with a recession in corporate profits. No guarantees, of course, but the outlook for earnings, especially given the recent tax cuts, is favorable.



...and dividend payouts rise,...

**AFAM** THE PRUDENT SPECULATOR  
Dividends Have Grown Over Time

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

| COUNT OF S&P<br>500 DIVIDEND<br>ACTIONS | ACTIONS   |             |           |            | S&P 500<br>DIVIDENDS PER<br>SHARE |
|---|-----------|-------------|-----------|------------|-----------------------------------|
|   | INCREASES | INITIATIONS | DECREASES | CESSATIONS |                                   |
| 2018 (YTD)                              | 129       | 1           | 0         | 0          | 2019 (Est.) \$57.48               |
| 2017                                    | 351       | 5           | 9         | 2          | 2018 (Est.) \$53.23               |
| 2016                                    | 344       | 7           | 19        | 2          | 2017 \$50.47                      |
| 2015                                    | 344       | 7           | 16        | 3          | 2016 \$46.73                      |
| 2014                                    | 375       | 8           | 8         | 0          | 2015 \$43.49                      |
| 2013                                    | 366       | 15          | 12        | 0          | 2014 \$39.44                      |
| 2012                                    | 333       | 15          | 11        | 1          | 2013 \$34.99                      |
| 2011                                    | 320       | 22          | 5         | 0          | 2012 \$31.25                      |
| 2010                                    | 243       | 13          | 4         | 1          | 2011 \$26.43                      |
| 2009                                    | 151       | 6           | 68        | 10         | 2010 \$22.73                      |
| 2008                                    | 236       | 5           | 40        | 22         | 2009 \$22.41                      |
| 2007                                    | 287       | 11          | 8         | 4          | 2008 \$28.39                      |
| 2006                                    | 299       | 6           | 7         | 3          | 2007 \$27.73                      |
| 2005                                    | 306       | 10          | 9         | 2          | 2006 \$24.88                      |
|   |           |             |           |            | 2005 \$22.22                      |

Source: Standard & Poor's. As of 3.22.18

Source: Bloomberg. As of 3.23.18

### Stock Updates

Chris Quigley and Jason Clark take a look at five of our companies in the news last week.

Event date 03.19.18... System software firm **Oracle** (ORCL – \$44.79) earned \$0.83 per share in fiscal Q3 2018 (vs. \$0.72 est.). ORCL had sales of \$9.8 billion (vs. \$9.8 billion est.). Shares fell 9.4% following the announcement, and generated a slew of analyst downgrades, with the general consensus that the transition to the cloud and slowing cloud growth would put ORCL at a competitive disadvantage.

Nevertheless, Oracle co-CEO Safra Catz stated, “During FY17, I forecast double-digit non-GAAP earnings per share growth for FY18. With non-GAAP earnings per share up 20% in Q3, our year-to-date earnings per share growth is now up to 16%. At this point, I feel quite confident that we will comfortably deliver on my original forecast of double-digit non-GAAP earnings per share growth for FY18.”

Oracle co-CEO Mark Hurd countered the market’s cloud pessimism, “Our app ecosystem year-to-date is up 12% and we continue to grow faster than the market. Less than 15% of our apps customers have started to move their core apps to the cloud. Between customers that have partially moved and those not started yet, we have an enormous opportunity in front of us.”

Mr. Hurd also dodged the opportunity to talk specifically about SaaS (Software as a Service) growth, stating, “The SaaS bookings AAR (annual run rate) was roughly where I expected it to be in Q3. And with SaaS revenue now approaching \$5 billion, I’ll focus my comments on SaaS revenue as opposed to ARR. SaaS revenue is up 24%, now over our \$4.6 billion run rate. ERP is up 62% organically. Overall, ERP is now at a \$1.5 billion annualized run rate.”

We aren’t super thrilled with the careful wording, even as we think that ORCL should do well over the longer term. That said, the company also lowered guidance for the third consecutive

quarter, stating, “Total revenues are expected to grow from 1% to 3% in USD; and negative 2% to zero in constant currency. Non-GAAP EPS in USD is expected to be between \$0.92 and \$0.95; and EPS in constant currency is expected to be between \$0.89 and \$0.92.” That compares with last quarter’s “Total revenue is expected to range from 2% to 4%. Non-GAAP EPS in constant currency is expected to be somewhere between \$0.68 and \$0.70. That puts the USD earnings per share at \$0.71 to \$0.73.”

Despite the big share price pullback, we continue to be encouraged by the possibilities in the cloud business and we believe that ORCL has a quality leadership team that will drive top-line growth to the bottom line. We think that the sell-off creates an opportunity to purchase an undervalued IT firm with solid fundamentals, a substantial net cash position and strong free cash flow generation. With shares having retreated from the multi-year highs earlier this month, we think that the forward P/E ratio of 14.8 times remains on the reasonable end of the spectrum. ORCL also sports a solid balance sheet with \$71 billion of cash and marketable securities, or \$9.7 billion of net cash (cash less debt). Our Target Price now stands at \$57, and we note that the shares are now changing hands just a buck or so above the 52-week low. ORCL currently yields 1.7%.

Air freight and logistics leader **FedEx** (FDX – \$229.48) earned \$3.72 per share in fiscal Q3 2018 (vs. \$3.11 est.). FDX had total revenue of \$16.5 billion, versus the \$16.2 billion estimate. While earnings beat analyst estimates, and the stock initially rallied in price, shares nose-dived a short time later and fell nearly 9% for the week, no doubt due in large part to worries about President Trump’s proposed tariffs and their potential impact on global economic growth projections.

FDX CEO Frederick W. Smith stated, “FedEx is concerned about the prospect of increased protectionist tariffs as history has shown repeatedly that protectionism is counterproductive to economic growth. The better approach is to encourage open markets and free exchange of products and services, and to reduce barriers to trade.”

On the topic of Q3 results, Mr. Smith said, “Congratulations to our team members around the world for another outstanding peak season with record volumes and high service levels. TNT integration efforts are accelerating, and we are well-positioned for profitable, long-term growth due to investments in our networks and people such as our recent commitment to \$3.2 billion in wage increases, bonuses, pension funding and expanded U.S. capital investment. FedEx is proud to be in the top 10 companies in Fortune magazine’s World’s Most Admired list and among its Best Companies to Work For. We believe this reflects our team member’s dedication through our Purple Promise, which states simply, I will make every FedEx experience outstanding.”

FDX said it now expects EPS for fiscal 2018 to come in between \$15.00 and \$15.40, a sizable increase from January’s estimate of \$12.70 to \$13.30. FDX also trimmed its capital expenditure expectation from \$5.9 billion to \$5.8 billion. Mr. Smith added, “Execution of our long-term growth strategies, customer demand for the unique value of our broad portfolio of solutions and healthy growth in the global economy are driving our performance. We expect strong operating performance in each of our transportation segments in the fourth quarter.”



Thus far, we are pleased that the ongoing Amazon threat has not hampered FedEx's growth plan and like that the new tax policy helps high-tax payers like FedEx even more. Interestingly, analysts have only modestly hiked 2018 price and earnings targets. We continue to be fond of FedEx's strong balance sheet, modest dividend yield and position as an industry leader. As things presently stand, FDX trades at approximately 13.3 times the next-12-months earnings estimate and our increased Target Price is now \$323.

While it didn't seem to move FDX's price much, we thought it worthwhile to include FedEx's original statement related to the package bombings in Texas, "We can confirm that a single package exploded while in a FedEx Ground sortation facility early this morning. One team member is being treated for minor injuries. We are working closely with law enforcement in their investigation." And the company followed up a short time later with, "FedEx has confirmed that a package detonated at a San Antonio FedEx Ground facility early this morning. We have also confirmed that the individual responsible also shipped a second package that has now been secured and turned over to law enforcement. We are thankful that there were no serious injuries from this criminal activity. We have provided law enforcement responsible for this investigation extensive evidence related to these packages and the individual that shipped them collected from our advanced technology security systems. The safety and security measures in place across the FedEx networks are designed to protect the safety of our people, customers and communities, and to assist law enforcement as appropriate." At this point, we don't anticipate any lingering effects to the company from the terrible attacks, and we are happy that the company was instrumental in helping law enforcement locate the Austin Bomber.

While we often quip that the hardest part about market timing is getting the timing right, investors have embraced this month's sole first-time recommendation **Cohu** (COHU – \$23.47), despite a sizable pullback on Friday. The supplier of semiconductor equipment actually still ended the week up more than 3.5% after management unexpectedly raised sales and margin guidance. COHU expects \$93 million in revenue in Q1, compared to the previous guidance of \$89 million, with gross margins between 43% and 43.5%.

Via press release, COHU CEO Luis Müller commented, "We are encouraged by the accelerated qualification and product acceptance of our Eclipse XTA handler by this major customer in Korea. This is the second significant customer success in the first quarter, following our January announcement that a large automotive semiconductor leader selected the MATRiX handler and our multi-beam test contactors. Together, these two customers are expected to add 2-3 points of handler share gains in 2018, while also providing increased confidence in our growth projections for our contactor business."

Christopher Bohrson, General Manager of Cohu's Digital Test Handler business, stated, "The Eclipse XTA is the first handler in the industry to enable operation in a lights-out automated factory. We are excited to be on the forefront of the robotics revolution in semiconductor test, working alongside this leading Korean customer. The initial target application for this customer is testing analog semiconductors, with potential follow-on business for Cohu and applicability for this technology in additional device segments. Further, the know-how and technologies utilized

to develop the Eclipse XTA can be implemented over time across our product portfolio as customers participate in the Industry 4.0 revolution.”

We continue to like the company’s pristine balance sheet with more than \$5 in net cash per share. We think that Cohu’s reasonable valuation (13.8 times NTM earnings projections), earnings growth estimates for the next three years of at least 10% and slight 1.0% yield make the company’s shares a compelling bargain in an otherwise generally expensive Information Technology sector. Our Target Price has been raised to \$33.

**Nike** (NKE – \$64.63, a worldwide leader in footwear and sports apparel, earned \$0.68 per share in fiscal Q3 2018 (vs. \$0.53 est.). NKE had sales of \$9.0 billion (vs. \$8.9 billion est.). The company reported sales growth in Greater China of 24%, along with “extraordinary demand” for worldwide launches of Nike React and Air Max 270 platforms. On a constant currency basis, Nike.com grew 18% globally year-over-year.

CEO Mark Parker said, “The Consumer Direct Offense is working. Through 2X Innovation, we’re creating and scaling new product platforms while also becoming sharper editors. Through 2X Direct, we’re moving closer to the consumer through differentiated retail concepts, leading with our mobile apps, dot-com, and digital partners. And through 2X Speed, we’re serving consumers at their pace. ”

CFO Andy Campion added, “While we’re clearly doubling the cadence and impact of innovation, our product momentum is even broader based. Our edit-to-amplify approach is bringing focus and accelerating growth within our power franchises like the Air Force 1 family of products and other key styles. We’re running a much more complete offense yet we still see tremendous opportunity to improve and edit how we serve our consumers. Second, our results in Q3 confirm that where the NIKE Brand more directly connects with consumers, we see the greatest growth. Our NIKE digital ecosystem, in particular, is setting the pace for growth in all four of our geographies. In each of our international geographies, Nike.com’s rate of growth outpaced the overall marketplace rate of growth by 2x or greater. And in North America, Nike.com not only grew, but has been accelerating over the last two months.”

Management reports that momentum is building, especially with its regional online stores. As always, the company will also have to continue to navigate currency headwinds, the ebbs and flows of product input costs and strong competition. We think product customization will help prop up margins and we believe that Nike remains a best-of-breed company, even though the valuation isn’t exactly cheap. Still, we like that Nike sports an excellent balance sheet and our Target Price for the high-quality shares has been inched up to \$73, so we will hold for a while longer. We also note that the company has been a big buyer of its shares since a \$12 billion repurchase plan was launched in November 2015. During the latest quarter, Nike bought back 14.6 million shares for approximately \$962 million, bringing the total since the plan’s inception to 126.4 million shares repurchased for about \$7.2 billion.

Despite reporting record fiscal Q1 revenue and earnings and receiving a few analyst upgrades, shares of cruise line operator **Carnival** (CCL – \$64.41) sank 3.7% last week, succumbing to the U.S. equity market pullback. Carnival posted adjusted EPS of \$0.52, which topped consensus

expectations of \$0.43. Revenue for the period of \$4.23 billion came in above forecasts calling for \$4.11 billion.

CCL CEO Arnold Donald stated, "We are off to a strong start to the year achieving another quarter of record earnings on record revenues and exceeding the high end of guidance. This strong operational execution affirms our efforts to create demand in excess of measured capacity growth and exceed guest expectations once onboard. Our guest experience efforts, coupled with our ongoing marketing and public relations programs are clearly accelerating cruise demand across the board to drive cruise ticket prices higher."

Looking ahead, net revenue yields for the current quarter are expected to be up approximately 2.5% to 3.5%, versus the year prior, even as net cruise costs excluding fuel are expected to increase by approximately 4% to 5%. Carnival expects adjusted EPS for Q2 in the range of \$0.56 to \$0.60, compared to \$0.52 in the year ago period. The outlook appears solid for the full year, as current booking trends suggest a 2.5% increase in net revenue yields, but net cruise costs excluding fuel rising by only 1%. Management states that changes in fuel prices (including realized fuel derivatives) and currency exchange rates are expected to increase earnings by \$0.10 per share compared to December guidance. The expectation for full year 2018 adjusted EPS is now in the range of \$4.20 to \$4.40, compared to December guidance of \$4.00 to \$4.30 and 2017's \$3.82.

Mr. Donald concluded, "The booking strength achieved during this year's wave season, outpacing even last year's record levels, demonstrates sustained strong demand for our world's leading cruise brands and delivers further confidence in our raised earnings guidance. We remain on track to achieve double-digit return on invested capital while continuing to return cash to shareholders through ongoing share repurchases and dividend growth."

We continue to maintain our long-term optimism on CCL and the overall cruise industry space, given favorable demographic trends and the fact that there are still meaningful growth opportunities in emerging economies, which are encouraging for global revenue diversification and the ability to rapidly reach a new customer base. CCL shares sport a 2.8% dividend yield and trade for less than 15 times estimated earnings. Our Target Price has sailed ahead to \$86.

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