MARKET COMMENTARY MONDAY, JUNE 18, 2018

June 18, 2018

EXECUTIVE SUMMARY

Washington Drama – North Korea to Chinese Tariffs
Week in Review – S&P 500 Nearly Unchanged
Target Prices – New Listing Posted to theprudentspeculator.com
Value vs. Growth – Expensive Stocks Winning, But Value More than Respectable Since Fed Liftoff
FOMC Meeting – Hard not to Like "Economy is Doing Very Well"
Myth Debunking – Monetary Policy Shifts and Stocks Short-Term and Long-Term
Stock News – Updates on JBL, TNP, T, DIS, CMCSA and VZ

Market Review

Hard to imagine a more news-filled week that coincided with the S&P 500 index essentially treading water. Indeed, headline-grabbing news flowed out of Washington fast and furious, starting with the landmark Trump-Kim Summit in Singapore and ending with the White House announcing tariffs of $50 billion on China, with an immediate tit-for-tat response from the Middle Kingdom. And there were plenty of market-moving events in between with a major court ruling and a big Federal Open Market Committee (FOMC) meeting.

When all was said and done, the widely followed S&P 500 showed a 0.07% total return for the five days, even as the Dow Jones Industrial Average retreated by 0.84%, the latter no doubt impacted by renewed global trade tensions pressuring high-dollar-priced names like Boeing and **Caterpillar** (CAT – $150.02), the two of which accounting for half the losses. And speaking of the giant maker of construction equipment, CAT hiked its quarterly dividend by more than 10% last week, prompting a modest increase in our Target Price (a fresh listing of all of our fair valuation measures was posted this weekend to theprudentspeculator.com) to $182.

No doubt, the drama out of Asia will continue as we go forward as plenty of uncertainty remains about what was accomplished on the North Korean front, while worries about an escalation of the trade skirmishes were blamed for a modest selloff in the Far East equity markets and a downturn in U.S. stock futures as these comments were penned. There is no assurance that cooler heads will eventually prevail on trade, but we can't forget that it was not so long ago that folks in the Western U.S. were worried about the range of North Korean missiles.

We don't want to sound Pollyannaish, and we know that the equity markets can pull back sharply at any time, but we suspect we will survive even a full-blown trade war,...

THE PRUDENT SPECULATOR
Keep Calm and Carry On

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Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	146%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	113%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	132%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	94%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	95%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	68%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%		51%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		39%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		37%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%			35%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%			32%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%			38%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%			34%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%			48%
Brexit	6/23/2016	2,113.32	2%	7%	15%			32%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			30%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**38%**	**76%**	**64%**

Source: AFAM Capital using data from Bloomberg. As of 6.15.18

…so we remain sanguine about the long-term prospects for our broadly diversified portfolios of undervalued stocks. True, we readily admit that Value strategies have continued to lag this year, with the Russell 3000 Value index dropping -0.63% last week alone, compared to a 0.82% advance for the Russell 3000 Growth index. Still, we doubt that many would have complained if told 30 months ago that the Value indexes would soar by more than 30%, despite the Federal Reserve having hiked the Fed Funds rate 7 times since the end of 2015,…

THE PRUDENT SPECULATOR
Value vs. Growth Since Fed Liftoff

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Returns Race

2018 YTD Return %	2017 Return %	2016 Return %	Since Fed Liftoff (12.16.15) %	Bloomberg Symbol	Index
Stock Indexes					
2.62	28.11	16.50	50.37	INDU Index	Dow Jones Industrial Average
12.79	29.73	8.97	57.53	CCMP Index	NASDAQ Composite Index
5.15	21.68	12.04	41.55	RIY Index	Russell 1000 Index
10.26	14.63	21.28	51.69	RTY Index	Russell 2000 Index
5.54	21.12	12.72	42.31	RAY Index	Russell 3000 Index
4.92	21.82	11.95	41.18	SPX Index	S&P 500 Index
10.31	30.21	7.07	51.61	RLG Index	Russell 1000 Growth Index
-0.12	13.64	17.33	31.73	RLV Index	Russell 1000 Value Index
13.60	22.14	11.28	52.49	RUO Index	Russell 2000 Growth Index
6.69	7.82	31.72	50.27	RUJ Index	Russell 2000 Value Index
10.56	29.58	7.38	51.69	RAG Index	Russell 3000 Growth Index
0.38	13.17	18.38	33.07	RAV Index	Russell 3000 Value Index
10.38	27.43	6.89	47.97	SGX Index	S&P 500 Growth Index
-0.83	15.35	17.39	32.83	SVX Index	S&P 500 Value Index
Largest Bond Funds					
-1.92	3.57	0.79	4.30	VBTIX Equity	Vanguard Tot Bd Mkt Idx-Inst
-2.09	3.53	0.75	4.02	VTBIX Equity	Vanguard Tot Bnd Mkt Ii-Inv
-1.42	8.17	0.82	15.52	PONAX Equity	Pimco Income Fund-A
0.99	2.39	0.81	8.49	VTABX Equity	Vanguard Ttl Intl Bnd-Adm
-1.69	3.09	0.75	3.87	MWTRX Equity	Mtrpltn Wst Ttl Rtrn Bnd-M
-2.10	5.13	0.73	5.66	PTTRX Equity	Pimco Total Return Fund-Inst
-1.19	7.36	0.63	14.98	PIMINIA Equity	Pimco Gis-Income Fund-Ins Ac
-0.56	2.02	-0.01	4.23	VFSTX Equity	Vanguard S/T Invest Grd-Inv
-0.50	4.53	0.21	4.51	VWITX Equity	Vanguard Intm Trm T/E-Inv
-1.41	4.36	0.63	8.81	DODIX Equity	Dodge & Cox Income
-0.59	3.79	0.51	5.50	DBLTX Equity	Doubleline Ttl Rtrn Bnd-I
-0.20	1.89	0.07	4.74	LDLAX Equity	Lord Abbett Shrt Dur Inc-C

Source: Bloomberg. As of 6.15.18

After winning the returns race in 2016, Value has struggled versus Growth in the 18 months since as names like Amazon, Netflix and Tesla have fueled the rally in expensive stocks. Our eclectic approach has found Value in the likes of Apple, Alphabet, Cisco, Intel and Microsoft, and we can't complain too much about our sizable gains, especially given the supposed headwind of rising rates since Dec. 2015.

...especially when considering how inexpensive Value stocks have become relative to Growth today.

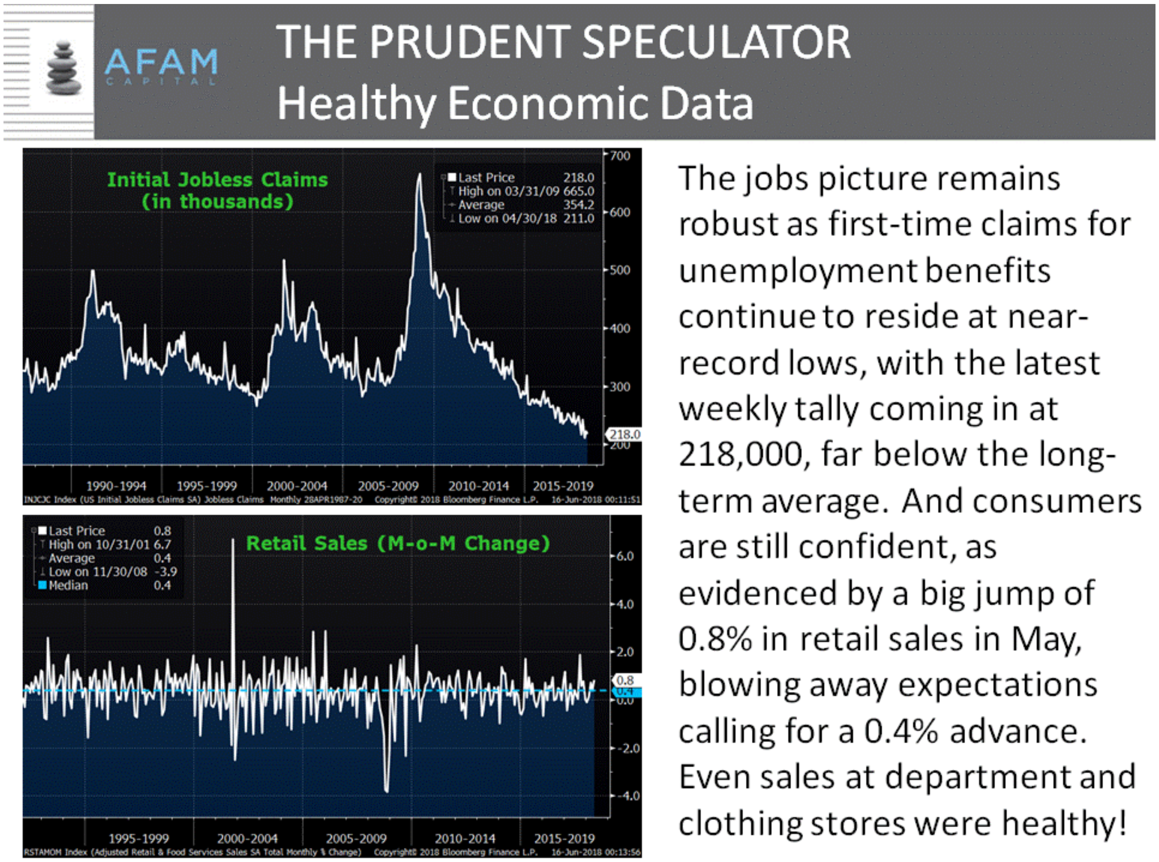
THE PRUDENT SPECULATOR
TPS Newsletter Portfolio Metrics

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	16.1	13.1	1.2	2.0	2.7
Buckingham	16.1	13.0	1.2	2.0	2.6
Milennium	16.5	13.2	1.2	1.9	2.6
PruFolio	16.2	13.1	1.1	2.0	2.6
Russell 3000	22.6	18.2	2.1	3.2	1.8
Russell 3000 Growth	27.6	22.0	2.9	6.7	1.2
Russell 3000 Value	18.8	15.3	1.6	2.0	2.5
Russell 2000	47.1	27.2	1.4	2.5	1.2
Russell 2000 Growth	72.5	36.0	1.8	4.6	0.6
Russell 2000 Value	33.6	21.2	1.1	1.7	1.9
Russell 1000	21.7	17.7	2.2	3.3	1.8
Russell 1000 Growth	26.2	21.3	3.0	7.0	1.2
Russell 1000 Value	18.1	14.9	1.6	2.0	2.5
S&P 500 Index	21.1	17.5	2.2	3.4	1.9
S&P 500 Growth Index	25.4	20.7	3.7	6.2	1.3
S&P 500 Value Index	17.6	14.7	1.5	2.2	2.6
S&P 500 Pure Value Index	15.4	12.5	0.7	1.4	3.2

As of 06.17.18. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

And speaking of the Fed, last week's meeting of the Federal Open Market Committee saw Jerome Powell & Co. boost its target for the Fed Funds rate by another 25 basis points to a range of 1.75% to 2.00%. While stock prices gyrated and eventually pulled back a bit, the increase hardly was unexpected, given prior Fed comments and continued solid domestic economic data.



The FOMC Statement that accompanied the rate hike was also upbeat,...

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THE PRUDENT SPECULATOR
FOMC Statement: June 13, 2018

Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Job gains have been strong, on average, in recent months, and the unemployment rate has declined. Recent data suggest that growth of household spending has picked up, while business fixed investment has continued to grow strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy have moved close to 2%. Indicators of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term. Risks to the economic outlook appear roughly balanced.

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 1-3/4% to 2%. The stance of monetary policy remains accommodative, thereby supporting strong labor market conditions and a sustained return to 2% inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

…as was Chairman Powell at his post-announcement press conference: "I want to start with a plain-English summary of how the economy is doing, what my colleagues and I at the Federal Reserve are trying to do, and why. The main takeaway is that the economy is doing very well. Most people who want to find jobs are finding them, and unemployment and inflation are low. Interest rates have been low for some years while the economy has been recovering from the financial crisis. For the past few years, we have been gradually raising interest rates, and along the way, we have tried to explain the reasoning behind our decisions. In particular, we think that gradually returning interest rates to a more normal level as the economy strengthens is the best way the Fed can help sustain an environment in which American households and businesses can thrive. Today, we have taken another step in that process by raising our target range for the federal funds rate by a quarter of a percentage point."

While we respect that higher interest rates "should" make stocks less appealing, we are not exactly unhappy that the reason for the increases has been an improving economy that is better able to stand on its own following the Financial Crisis. And, we can't forget that interest rates remain very low by historical standards, with even the long-run projections from the FOMC Participants…

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FOMC Fed Funds Rate Targets: Jun 2018

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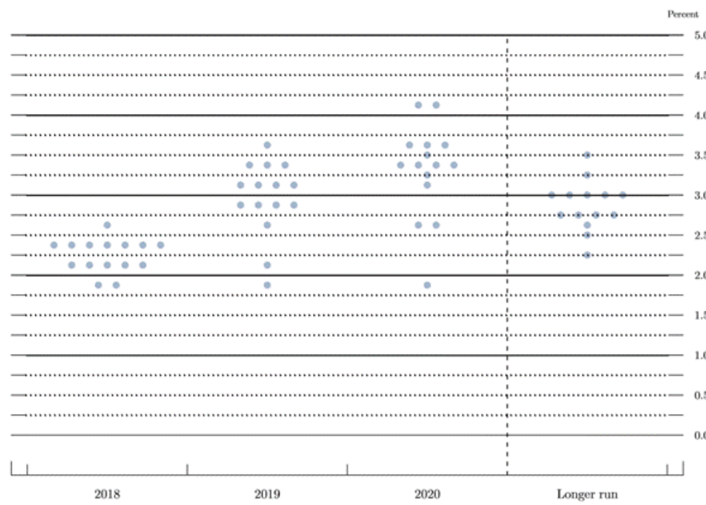
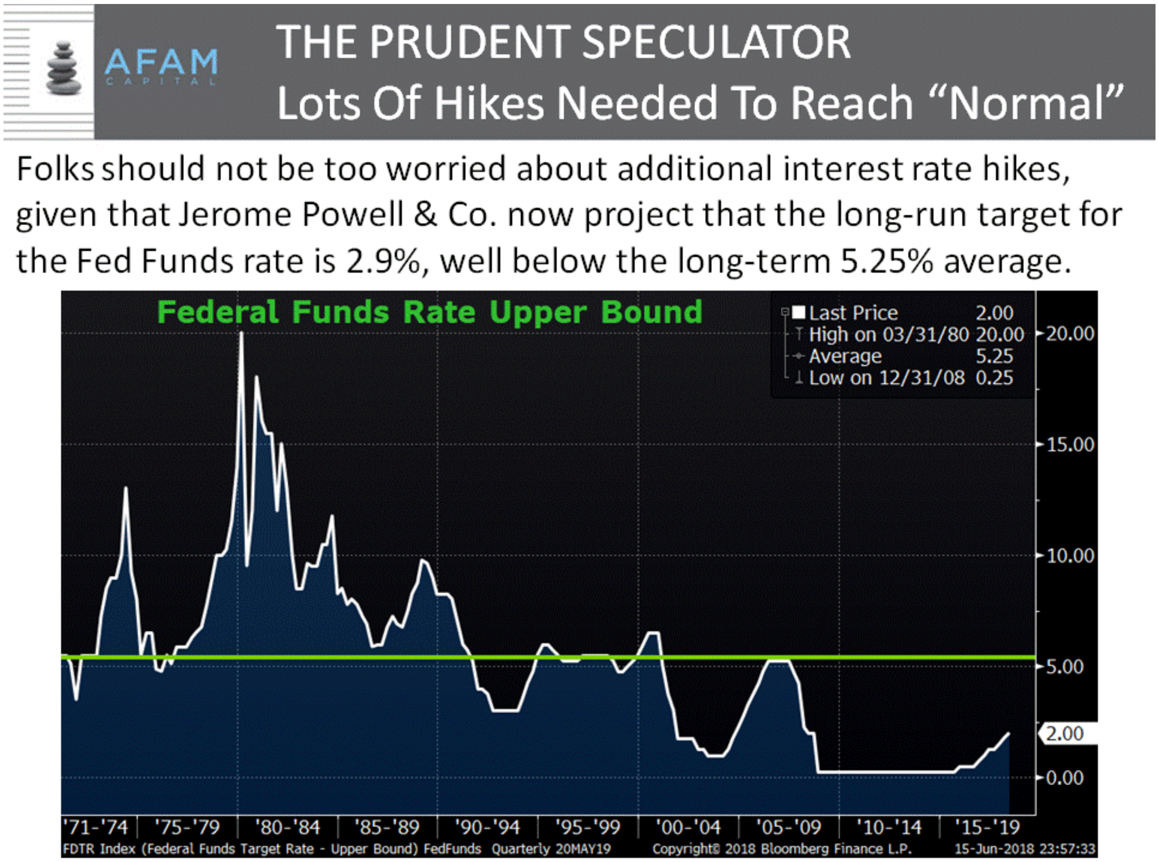
FOMC Participants' Fed Funds Rate Target Level Number with each projection				
Midpoint of Target Range	2018	2019	2020	Longer run
1.750				
1.875	2	1	1	
2.000				
2.125	5	1		
2.250				1
2.375	7			
2.500				1
2.625	1	1	2	1
2.750				4
2.875		4		
3.000				5
3.125		4	1	
3.250			1	1
3.375		3	4	
3.500			1	1
3.625		1	3	
3.750				
3.875				
4.000				
4.125			2	
4.250				

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



Source: Federal Reserve, June 13, 2018

...calling for a Fed Funds rate well below the historical average,...



...with long-term growth in measures of GDP and inflation remaining more or less subdued.

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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 2.8%, up from 2.7%. The long-run forecast for the Federal Funds rate remained 2.9%.

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

Percent

Variable	Median[1]				Central tendency[2]				Range[3]			
	2018	2019	2020	Longer run	2018	2019	2020	Longer run	2018	2019	2020	Longer run
Change in real GDP	2.8	2.4	2.0	1.8	2.7 – 3.0	2.2 – 2.6	1.8 – 2.0	1.8 – 2.0	2.5 – 3.0	2.1 – 2.7	1.5 – 2.2	1.7 – 2.1
March projection	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
Unemployment rate	3.6	3.5	3.5	4.5	3.6 – 3.7	3.4 – 3.5	3.4 – 3.7	4.3 – 4.6	3.5 – 3.8	3.3 – 3.8	3.3 – 4.0	4.1 – 4.7
March projection	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
PCE inflation	2.1	2.1	2.1	2.0	2.0 – 2.1	2.0 – 2.2	2.1 – 2.2	2.0	2.0 – 2.2	1.9 – 2.3	2.0 – 2.3	2.0
March projection	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
Core PCE inflation[4]	2.0	2.1	2.1		1.9 – 2.0	2.0 – 2.2	2.1 – 2.2		1.9 – 2.1	2.0 – 2.3	2.0 – 2.3	
March projection	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	
Memo: Projected appropriate policy path												
Federal funds rate	2.4	3.1	3.4	2.9	2.1 – 2.4	2.9 – 3.4	3.1 – 3.6	2.8 – 3.0	1.9 – 2.6	1.9 – 3.6	1.9 – 4.1	2.3 – 3.5
March projection	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

Source: Federal Reserve, June 13, 2018

Yes, we realize that the more optimistic tone struck by Chair Powell (when asked about trade, he stated, "There is concern that trade changes could be disruptive… As I also mentioned, we don't see it in the numbers yet. We really don't. We see a very strong economy across a bunch of fronts.") has elevated the likelihood of two more rate hikes this year,…

THE PRUDENT SPECULATOR
Futures: Three or Four Hikes in 2018

99) Export Data — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Midpoint — Fed Effective Rate 1.90
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 06/12/2018 — Based on rate 1.50-1.75

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	Fwd Rate
06/13/2018	100.0%	0.0%	0.0%	84.0%	16.0%	0.0%	0.0%	0.0%	0.0%	1.92
08/01/2018	100.0%	0.0%	0.0%	80.5%	18.8%	0.7%	0.0%	0.0%	0.0%	1.93
09/26/2018	100.0%	0.0%	0.0%	21.0%	64.4%	14.1%	0.5%	0.0%	0.0%	2.11
11/08/2018	100.0%	0.0%	0.0%	18.7%	59.7%	19.6%	2.0%	0.1%	0.0%	2.14
12/19/2018	100.0%	0.0%	0.0%	9.2%	38.8%	40.1%	11.0%	1.0%	0.0%	2.27
01/30/2019	100.0%	0.0%	0.0%	8.1%	35.2%	39.9%	14.4%	2.2%	0.1%	2.29
03/20/2019	100.0%	0.0%	0.0%	4.4%	22.7%	37.7%	26.2%	7.8%	1.1%	2.41
05/01/2019	100.0%	0.0%	0.0%	3.7%	20.1%	35.6%	27.8%	10.5%	2.1%	2.45
06/19/2019	100.0%	0.0%	0.0%	2.4%	14.3%	30.1%	30.6%	16.7%	5.1%	2.54

99) Export Data — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Midpoint — Fed Effective Rate 1.90
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 06/15/2018 — Based on rate 1.75-2.00

Meeting	Hike Prob	Cut Prob	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	3.25-3.5	Fwd Rate
08/01/2018	16.5%	0.0%	83.5%	16.5%	0.0%	0.0%	0.0%	0.0%	0.0%	1.92
09/26/2018	84.5%	0.0%	15.5%	71.1%	13.5%	0.0%	0.0%	0.0%	0.0%	2.12
11/08/2018	85.4%	0.0%	14.6%	68.0%	16.6%	0.7%	0.0%	0.0%	0.0%	2.13
12/19/2018	93.9%	0.0%	6.1%	36.8%	46.7%	10.0%	0.4%	0.0%	0.0%	2.28
01/30/2019	94.4%	0.0%	5.6%	34.3%	45.9%	13.0%	1.2%	0.0%	0.0%	2.30
03/20/2019	97.4%	0.0%	2.6%	18.8%	39.6%	30.8%	7.6%	0.7%	0.0%	2.44
05/01/2019	97.8%	0.0%	2.2%	16.4%	36.6%	32.0%	10.9%	1.7%	0.1%	2.47
06/19/2019	98.6%	0.0%	1.4%	11.4%	29.5%	33.7%	18.4%	4.9%	0.7%	2.56
07/31/2019	98.8%	0.0%	1.2%	10.0%	26.9%	33.1%	20.6%	6.8%	1.3%	2.60

Source: Bloomberg

With a very modest upgrade to their economic outlook at the June 13, 2018 FOMC Meeting, the chance of four or more rate hikes this year has moved up from 52.1% pre-Fed-confab to 57.1% today.

...while less dovish comments last week from the European Central Bank has again brought out warnings about what can happen to stocks when monetary policy is tightened.

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THE PRUDENT SPECULATOR
Volatility Surrounding Fed Liftoff

Not surprisingly, stock prices are often volatile during the six months before and after the initiation of a Fed rate-hiking cycle.

S&P 500 Declines of 5% or More Starting Six Months Before or After the First Rate Hike Since 1946

Declines Starting 6 Mos. Before			First	Declines Starting 6 Months After		
Start Date	End Date	% Drop	Hike	Start Date	End Date	% Drop
02/02/46	2/26/1946	(10.2)	04/25/46	05/29/46	5/17/1947	(28.8)
03/04/55	3/14/1955	(6.8)	04/15/55	09/23/55	10/11/1955	(10.6)
--	--	--	09/12/58	--	--	--
--	--	--	07/17/63	10/28/63	11/22/1963	(6.5)
09/25/67	3/5/1968	(10.1)	11/20/67	--	--	--
11/29/68	5/26/1970	(36.1)	12/18/68	--	--	--
04/28/71	11/23/1971	(13.9)	07/16/71	--	--	--
01/11/73	10/3/1974	(48.2)	01/15/73	--	--	--
--	--	--	08/30/77	--	--	--
09/22/80	9/29/1980	(5.3)	09/26/80	11/28/80	8/12/1982	(27.1)
10/10/83	7/24/1984	(14.4)	04/09/84	--	--	--
08/25/87	12/4/1987	(33.5)	09/04/87	--	--	--
02/02/94	4/4/1994	(8.9)	02/04/94	--	--	--
02/18/97	4/11/1997	(9.6)	03/25/97	08/06/97	8/29/1997	(6.3)
05/13/99	5/27/1999	(6.3)	06/30/99	07/16/99	10/15/1999	(12.1)
02/11/04	8/12/2004	(8.2)	06/30/04	--	--	--
		(10.1)	**Medians**			**(11.4)**

Source: S&P Capital IQ, Federal Reserve. Past performance is no guarantee of future results.

Of course, those putting forth those scary numbers often conveniently ignore the whole story,...

THE PRUDENT SPECULATOR
Actual Returns Pre- & Post-Fed Liftoff

S&P 500 Returns Six-Months Pre- and Post-Fed Tightening

Start Date	End Date	Price Return 6 Months Before	First Hike	Start Date	End Date	Price Return 6 Months After
10/25/1945	4/25/1946	14.9%	4/25/1946	4/25/1946	10/25/1946	-18.9%
10/15/1954	4/15/1955	22.4%	4/15/1955	4/15/1955	10/15/1955	10.7%
3/12/1958	9/12/1958	16.6%	9/12/1958	9/12/1958	3/12/1959	18.7%
1/17/1963	7/17/1963	7.5%	7/17/1963	7/17/1963	1/17/1964	12.9%
5/20/1967	11/20/1967	1.1%	11/20/1967	11/20/1967	5/20/1968	7.0%
6/18/1968	12/18/1968	8.3%	12/18/1968	12/18/1968	6/18/1969	-6.9%
1/16/1971	7/16/1971	8.2%	7/16/1971	7/16/1971	1/16/1972	6.0%
7/15/1972	1/15/1973	12.5%	1/15/1973	1/15/1973	7/15/1973	-10.8%
2/28/1977	8/30/1977	-1.6%	8/30/1977	8/30/1977	2/28/1978	-6.9%
3/26/1980	9/26/1980	31.6%	9/26/1980	9/26/1980	3/26/1981	10.5%
10/9/1983	4/9/1984	-7.0%	4/9/1984	4/9/1984	10/9/1984	6.5%
3/4/1987	9/4/1987	11.4%	9/4/1987	9/4/1987	3/4/1988	-14.1%
8/4/1993	2/4/1994	6.2%	2/4/1994	2/4/1994	8/4/1994	-1.1%
9/25/1996	3/25/1997	16.2%	3/25/1997	3/25/1997	9/25/1997	19.9%
12/30/1998	6/30/1999	12.1%	6/30/1999	6/30/1999	12/30/1999	7.4%
12/30/2003	6/30/2004	3.7%	6/30/2004	6/30/2004	12/30/2004	7.3%
	Median	**9.8%**				**6.7%**

...as years of market history have shown that events like Fed Liftoff are not exactly negative for those who remember that the secret to success in stocks is not to get scared out of them!

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

Stock Updates

Chris Quigley and Jason Clark take a look at several of our stocks that were in the news last week…

Electronic manufacturing services firm **Jabil** (JBL – $27.73) posted earnings per share of $0.46, versus the $0.44 estimate in fiscal Q3 2018. JBL had sales of $5.4 billion (vs. $4.9 billion est.). Although the stock was initially up in after-hours trading on Thursday, shares slid 6.6% on Friday on margin worries and an analyst price target reduction. Curiously, the J.P. Morgan analyst maintained his Overweight rating on the stock, while trimming the twelve-month target price from $42 to $39. While we understand that Wall Street price targets often have little meaning, we would hope that someone would have the grey matter to overweight a stock they expect to appreciate by more than 40%, not counting dividends, over the next year!

Jabil CEO Mark Mondello commented on the results, “During the quarter, we had two distinct challenges. First were unanticipated factory costs caused by broad-based material and component constraints. And second were lingering cost overruns within our packaging business. These two issues combined, one macro and one more micro in nature, cost us $12 million to $13 million during the quarter. The good news is both challenges are temporary and both will dissipate.

Overall, I'm pleased with the quarter, and as customary, Forbes will provide more detail around our results and speak to our forward guidance."

CFO Forbes Alexander, who will be retiring after more than 20 years at Jabil, said of the outlook, "Diversified Manufacturing Services segment revenue is expected to be consistent on a year-over-year basis or $2.15 billion while Electronics Manufacturing Services segment revenue is expected to increase approximately 13% on a year-over-year basis to $3.25 billion. We expect total company revenue in the fourth quarter in the range of $5.2 billion to $5.6 billion or an increase of almost 8% at the midpoint of the range on a year-over-year basis. Core operating income is estimated to be in the range of$175 million to $225 million with a core operating margin in the range of 3.4% to 4%. Core earnings per share are estimated to be in the range of $0.56 to $0.80 per diluted share. The tax rate on core earnings in the fourth quarter is estimated to be 28%."

Mr. Mondello added, "We have plenty of work ahead as our DMS segment is preparing for multiple program ramps, while our EMS segment is digesting the healthy revenue growth we've experienced this year. At Jabil, we embrace constant change and welcome the incredible challenges put forth by our customers."

Although **Apple** (AAPL – $188.84) continues to be a major customer (its orders are usually allocated to the DMS segment), we like that JBL is becoming less reliant on the giant from Cupertino. The DMS segment is seeing gains in health care and packaging business orders. We think that the EMS business is also attractive, especially as the company's products reach a wide array of markets including automotive, energy, industrial, retail, networking, telecom, cloud computing and capital equipment. Of course, we also note that the stock presently trades for just 11.7 times the current EPS estimate for the next 12 months. Our Target Price for JBL remains $44.

Oil and Gas storage and transport leader **Tsakos Energy Navigation Ltd** (TNP – $3.42) posted a loss of $0.21 per share in fiscal Q1 2018 (vs. $0.15 loss est.). TNP had sales of $98.0 million (vs. $97.0 million est.). Shares fell 1.1% following the announcement. TNP reported that its fleet operated at 97% utilization in Q1 and moved 600 million barrels of oil and oil products in the quarter. Despite five vessels in drydock and four vessels losing their charter revenue, TNP saw average daily revenue per vessel around $18,000.

CEO Nikolas P. Tsakos commented, "The first quarter of this year has not been a very positive quarter, but we look at it as the bottom of the recent market, that we've been in a down cycle for — I would say the last two years. And we hope and we have the feeling that the Q1 was the bottom of the cycle. We are looking — it starts reminiscing, if you look at the graph for 2013, and by this — the first quarter of 2013 was the weakest spot, and then the market for different reasons started turning around. However in turn, we have followed a very prudent and sometimes boring model of running the commercial side of our business. And with 80% of our ships on long-term time charters, we always cover our financial and operational obligations with the 80% of that fleet. And it covers the whole obligations of the fleet. And that leaves us the 20%, of course, still a significant part together with another 20% of profit sharing to take advantage of a higher market."

TNP's Chief Operating Officer George Saroglou added, "Navigating one of the weakest quarters in recent memory, TEN's operating strategy of keeping the majority of the fleet on long term contracts significantly benefited our revenues and protected us from the pressure the markets were applying on companies with heavy exposure to the spot market. The fleet's time charter earnings were more than double the average market spot rates during the first quarter and hence alleviating any sustained pressure on the company's results. Looking ahead with Q1 firmly behind us, the accelerated scrapping of late, the deceleration in global fleet growth, the positive global oil demand and the continuing increases in US crude oil exports, point to more favorable market fundamentals for Q2 and beyond. TEN's modern and diversified fleet with the ability to capture market upturns, puts us in a unique position to generate stronger revenues when markets turn while at the same time maintain and solidify our company's healthy financial position."

Mr. Tsakos concluded, "And as we said, this has been a challenging quarter but the prospects look positive and we hope that 2018 would be another profitable year. It has, in many ways it is reminiscent of the end of 2013 when the market started turning around and we see a lot of this because of the appetite of the major oil companies for long-term business happening almost on a daily basis, and big names, all the majors are out there to take in vessels, and asset, again not new buildings, just the vessels out of the market."

TNP's average fleet age is 7.4 years, compared with a global average of 10.3 years according to the company. Tsakos' 66 vessels are secured on an average contract of 2.5 years with more than $1.3 billion of minimum contracted revenue. TNP's balance sheet also remained solid with some $178 million in cash and total debt to capital of 53.7%. We also note that after quarter-end, Tsakos signed a long-term contract with a major oil company for two new Aframax tankers. Per the company, "the time charter equivalent income of these two vessels, over the minimum charter period, equates to about $82.0 million."

Though the stock has been a disappointment over the years and is having a challenging start to 2018, despite relatively sizable dividend payouts made every quarter, we remain fans of TNP as the shares change hands at 0.7 times estimated sales and 1.6 times estimated cash flow, both ratios well below the historical norms. While the bottom line is likely to remain challenged in the near term, we think the fact that the stock remain very much out of favor creates plenty of upside potential when shipping rates improve. And, with a young fleet, a more subdued industry-wide order book going forward and relatively consistent growth in global oil demand likely for the foreseeable future, we continue to think this micro-cap name fits in well with the much more well-known integrated oil companies and oil-service names that account for the lion's share of our Energy Sector exposure. Our Target Price for TNP is now $6.

There was no shortage of reporting last week on the long-awaited verdict for the U.S. versus **AT&T** (T – $33.15) in its acquisition attempt of entertainment giant Time Warner. The ruling in favor of AT&T was a major loss for the U.S. government (and was a big win for another "vertical" merger on the docket, **CVS Health** (CVS – $70.09) and **Aetna** (AET – $189.50)), as it was seeking to block the merger. U.S. District Court Judge Richard Leon required no divestitures or other corporate actions to complete the merger. The U.S. said it would not appeal and the acquisition was completed and closed on Friday.

The union brings together a global media and entertainment powerhouse and AT&T's leadership in technology and its video, mobile and broadband customer relationships. "The content and creative talent at Warner Bros., HBO and Turner are first-rate. Combine all that with AT&T's strengths in direct-to-consumer distribution, and we offer customers a differentiated, high-quality, mobile-first entertainment experience," said AT&T CEO Randall Stephenson. "We're going to bring a fresh approach to how the media and entertainment industry works for consumers, content creators, distributors and advertisers."

Candidly we do have concerns about the deal given the more than $84 billion price tag, as we don't currently see significant value for AT&T by owning the content rather than acquiring distribution rights. There is obviously opportunity here, but the company has seen contraction in most of its business lines of late. Nonetheless, we still think that T shares are worth holding, but we will be keeping a close eye on how things transpire as with the additional debt costs and the fact that the Time Warner business is no larger than its slowing landline business, we want to ensure that the longevity of the current dividend is not disturbed. Still, our Target Price for T is $45, as the stock boasts a very inexpensive forward (pre-deal) P/E of less than 10 and a 6.0% dividend yield.

The court's decision also led to a lot of movement in the markets for content/communication company stocks as investors began to "bet" on what company might be the next target. That said, we all know that a few months back **The Walt Disney Company** (DIS – $108.85) made an all stock offer valued at $52.4 billion for many but not all of Fox's assets. The deal included Fox's movie studios, networks National Geographic and FX, Star TV, and stakes in Sky, Endemol Shine Group and Hulu, as well as regional sports networks. Following the AT&T/Time Warner news, one of our other holdings, **Comcast** (CMCSA – $33.88), challenged Disney by offering 21st Century Fox $65 billion of cash for those same assets, igniting fears of a bidding war, even as shares of both suitors defied conventional wisdom by posting sharp gains.

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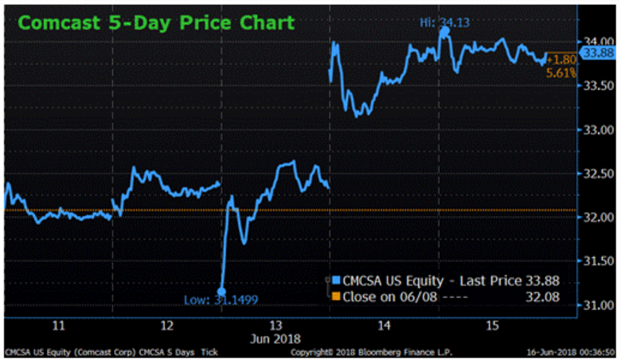
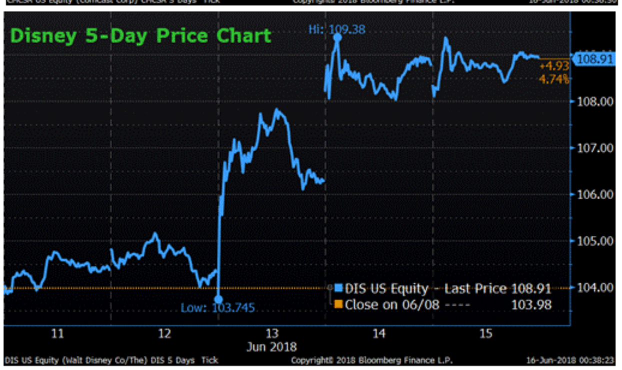
Inside Information Could Be Costly





Illustrating yet again that it is hard to predict short-term stock price movements, *The New York Times* declared shareholders of **Comcast** (CMCSA) and **Disney** (DIS) to be "losers" of the AT&T antitrust verdict on fears that the entertainment giants would be free to engage in a bidding war for 21st Century Fox assets. The game is hardly over, of course, but that view was based on after-hours trading on June 12, without knowing about the big gains the next three days.

Comcast said the assets would increase its international footprint and boost its entertainment portfolio at a time when it's facing pressure in its video business as more consumers cut the cord and turn to Internet-delivered video services. "These are highly strategic and complementary businesses, and we are in our minds the right buyer," Comcast's CEO Brian Roberts said on a call with investors.

While we can understand why both companies want the Fox assets, especially the international SKY assets, we will see if this eventual bidding war gets out of hand (as we fully expect Disney to up its bid and most likely add a cash component). As we own both bidders, we won't pick a side, though we will hope the game can somehow stay low-scoring! Our current Target Price for CMCSA is $50 and for DIS is $142, so we think both stocks still have plenty of appreciation potential, no matter what happens on the Fox front.

We shall see what transpires over the coming weeks and months concerning this situation, but we would also not be surprised to see more merger action in the content-provider and content-delivery spaces. One of our other core telecom holdings, **Verizon** (VZ – $48.06) has been rumored to be looking for additional acquisitions, and with the lowered probability that the government might try to block potential asset pickups, we would not be surprised for VZ to be actively on the prowl. VZ trades for less than 11 times forward earnings estimates and yields a generous 4.9%. Our Target Price remains $64.

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