EXECUTIVE SUMMARY

TPS 626 - December Newsletter Coming Tuesday Evening
Week in Review - Best Since 2011
The Only Problem With Market Timing - Maximum Pessimism Can Lead to Handsome Gains
Jim Cramer - Sell on Thanksgiving, Buy Today?
Semantics - "Just Below" is What the Market Wanted to Hear from Jerome Powell
Econ Update - Low Inflation; Weak Housing Data
Myth Busting - 2013 and 2014 Taper Tantrum Hardly a Disaster for Stocks
Keeping the Faith - Plenty of Volatility, But Long-Term Trend has been Higher
Company News - Updates on AET, CVS, GM, CM, TNP & MU

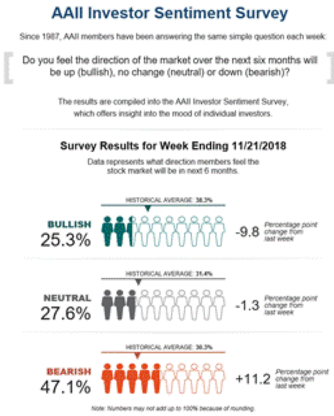
Market Review

Work is underway on the December edition of *The Prudent Speculator*. If all goes according to Hoyle, *TPS 626* will be emailed to readers on Tuesday evening, December 4. This month, we plan to offer our Quarterly Earnings Scorecard, while our Portfolio Builder selection includes stocks from among our top 25 holdings for our managed account clients. In the interim, we will post updated Target Prices to our Web site later today.

No doubt, more than a few folks were surprised by the terrific rebound in the U.S. equity markets last week, given that the gap between investor optimism and pessimism hit a two-year-plus low the day before Thanksgiving,…

THE PRUDENT SPECULATOR
AAII Sentiment – Contrarian Buy Signal

Certainly, there was (and still is) no guarantee that history will repeat, but the massive -21.0 point plunge on Nov. 22, 2018 in the AAII Bull-Bear Spread, sending the contrarian gauge to its lowest level since Feb. 11, 2016, came just in time for a fantastic stock market rebound over the last week of November. Not surprisingly, perhaps, that 2016 AAII low-water mark coincided with a major bottom in the S&P 500, with the widely followed index returning a whopping 59.8% since then.



AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 8.5										
BELOW	-54.00	8.48	815	0.24%	0.20%	1.17%	1.05%	3.27%	2.89%	6.62%	5.88%
ABOVE	8.49	62.86	791	0.17%	0.15%	0.49%	0.41%	2.05%	1.81%	4.71%	4.22%
	Ten Groupings of 1606 Data Points										
1	-54.0	-14.1	163	0.36%	0.30%	1.35%	1.10%	4.14%	3.52%	8.20%	6.82%
2	-14.0	-7.0	160	0.37%	0.34%	1.20%	1.08%	3.88%	3.55%	7.28%	6.68%
3	-6.8	-0.9	161	0.30%	0.26%	1.66%	1.57%	3.36%	2.96%	6.90%	6.19%
4	-0.7	3.5	158	0.15%	0.13%	1.09%	1.01%	2.64%	2.33%	5.94%	5.51%
5	3.5	8.0	162	0.01%	-0.02%	0.61%	0.52%	2.63%	2.38%	5.14%	4.59%
6	8.1	12.5	155	0.12%	0.11%	0.42%	0.33%	1.65%	1.43%	4.69%	4.17%
7	12.7	17.0	169	0.16%	0.14%	0.89%	0.81%	2.90%	2.70%	6.15%	5.76%
8	17.0	22.7	152	0.27%	0.25%	0.69%	0.61%	2.15%	1.87%	5.64%	5.16%
9	22.7	30.5	162	0.11%	0.09%	0.27%	0.18%	2.11%	1.85%	4.61%	4.02%
10	30.5	62.9	164	0.20%	0.18%	0.18%	0.11%	1.20%	0.97%	2.23%	1.79%

From 07.31.87 through 11.22.18. Unannualized. SOURCE: Al Frank using data from American Association of Individual Investors and Bloomberg

…but those able to stay the course through yet another turbulent period saw the best Friday-to-Friday weekly gain for the S&P 500 since 2011!

AFAM CAPITAL

THE PRUDENT SPECULATOR
Outsized Weekly S&P Moves

The week ended 11.30.18 was terrific. Since 1927, there have been *only* 116 times when the S&P 500 gained 4.847%+ from a Friday to a Friday.

	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		2	1	0	0	2	1	0	4	1	11
Years Ending in 1		8	0	0	0	1	1	2	3	4	19
Years Ending in 2		13	1	0	1	0	3	0	3	0	21
Years Ending in 3		12	0	0	1	0	0	0	1	0	14
Years Ending in 4		5	0	0	0	4	1	0	0	0	10
Years Ending in 5		2	0	0	0	2	0	0	0	0	4
Years Ending in 6		1	1	0	1	0	1	0	0	0	4
Years Ending in 7		1	0	0	0	0	3	1	0	0	5
Years Ending in 8	0	9	1	0	0	0	1	1	3	1	16
Years Ending in 9	4	1	0	0	0	0	0	1	6		12
Totals	4	54	4	0	3	9	11	5	20	6	116

From 12.31.27 though 11.30.18. Weeks of index price return gains of more than 4.847%. 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		8	3	1	0	1	1	1	2	2	19
Years Ending in 1		8	2	0	0	0	0	0	2	2	14
Years Ending in 2		12	1	0	3	0	0	0	3	0	19
Years Ending in 3		11	1	0	0	0	0	0	0	0	12
Years Ending in 4		3	0	0	0	6	0	0	0	0	9
Years Ending in 5		0	0	0	0	0	0	0	0	1	1
Years Ending in 6		1	2	0	0	0	1	0	0	1	5
Years Ending in 7		7	0	0	0	0	4	0	1	0	12
Years Ending in 8	1	8	1	0	0	1	0	3	6	2	22
Years Ending in 9	7	5	0	0	0	1	1	1	3		18
Totals	8	63	10	1	3	9	7	5	17	8	131

From 12.31.27 though 11.30.18. Weeks of index price return drops of more than 4.847%. SOURCE: Al Frank using data from Bloomberg

True, Value did not perform as well as the S&P's 4.85% advance, but those of us who remain faithfully focused on buying and harvesting inexpensively priced stocks won't complain too much about a 3.53% advance on the week for the Russell 3000 Value index, even as the Russell 3000 Growth index jumped a whopping 5.92%.

After all, some investors likely headed for the hills after one of financial television's most well-known personalities seemingly threw in the towel Thanksgiving week,…

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THE PRUDENT SPECULATOR
The Only Problem with Market Timing…

Taking a costly stand, CNBC star Jim Cramer had quite a week, flip-flopping from "You'll wish you had sold…" to "…Bullish promised land."

Cramer: 'You'll wish you sold at these prices' if the Fed hikes rates in December

- Investors should sell their stocks now if they expect the Fed to hike interest rates next month, Jim Cramer says.
- Wall Street expects one more rate hike in December and so does Cramer.

Berkeley Lovelace Jr. | @BerkeleyJr
Published 9:22 AM ET Tue, 20 Nov 2018 | Updated 1:02 PM ET Tue, 20 Nov 2018

CNBC

One more hurdle for stocks before the 'bullish promised land': Cramer

6:58 PM ET Wed, 28 Nov 2018

Jim Cramer highlights trade as a lingering obstacle for Wall Street's bulls after the Federal Reserve seemed to walk back its hawkish interest rate hike plans.

…admonishing his viewers that they will wish they had sold if the Federal Reserve raises interest rates in December, which the futures market (78% chance) is presently suggesting is very likely.

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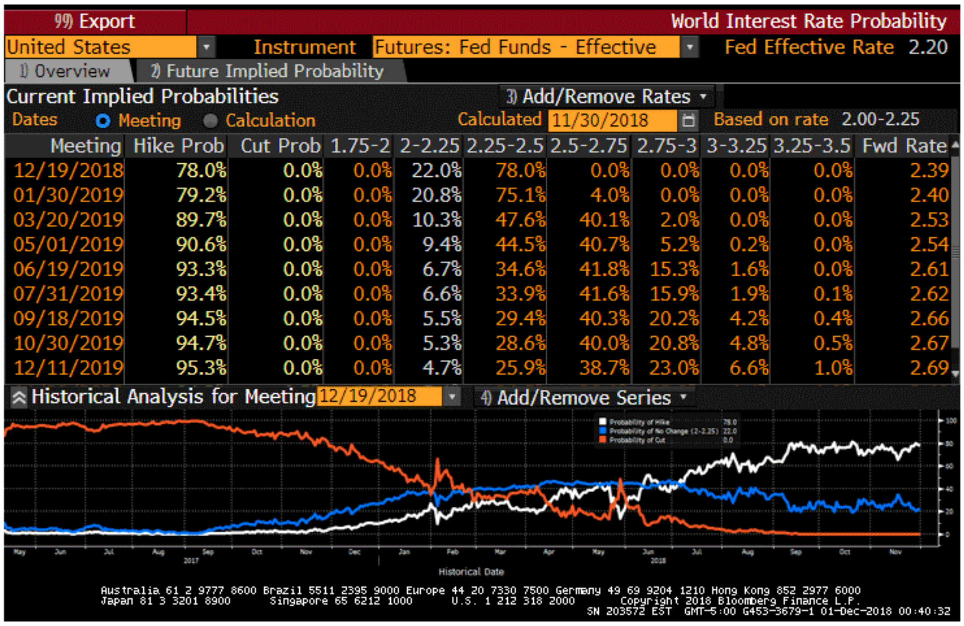
THE PRUDENT SPECULATOR
Futures: 78% Chance of December Hike

While Federal Reserve Chairman Jerome Powell suggested on Nov. 28 that the Fed Funds rate was "just below" the neutral level, there is little doubt that the benchmark interest rate will be higher going forward.



99) Export — World Interest Rate Probability

United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.20

1) Overview — 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 11/30/2018 — Based on rate 2.00-2.25

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
12/19/2018	78.0%	0.0%	0.0%	22.0%	78.0%	0.0%	0.0%	0.0%	0.0%	2.39
01/30/2019	79.2%	0.0%	0.0%	20.8%	75.1%	4.0%	0.0%	0.0%	0.0%	2.40
03/20/2019	89.7%	0.0%	0.0%	10.3%	47.6%	40.1%	2.0%	0.0%	0.0%	2.53
05/01/2019	90.6%	0.0%	0.0%	9.4%	44.5%	40.7%	5.2%	0.2%	0.0%	2.54
06/19/2019	93.3%	0.0%	0.0%	6.7%	34.6%	41.8%	15.3%	1.6%	0.0%	2.61
07/31/2019	93.4%	0.0%	0.0%	6.6%	33.9%	41.6%	15.9%	1.9%	0.1%	2.62
09/18/2019	94.5%	0.0%	0.0%	5.5%	29.4%	40.3%	20.2%	4.2%	0.4%	2.66
10/30/2019	94.7%	0.0%	0.0%	5.3%	28.6%	40.0%	20.8%	4.8%	0.5%	2.67
12/11/2019	95.3%	0.0%	0.0%	4.7%	25.9%	38.7%	23.0%	6.6%	1.0%	2.69

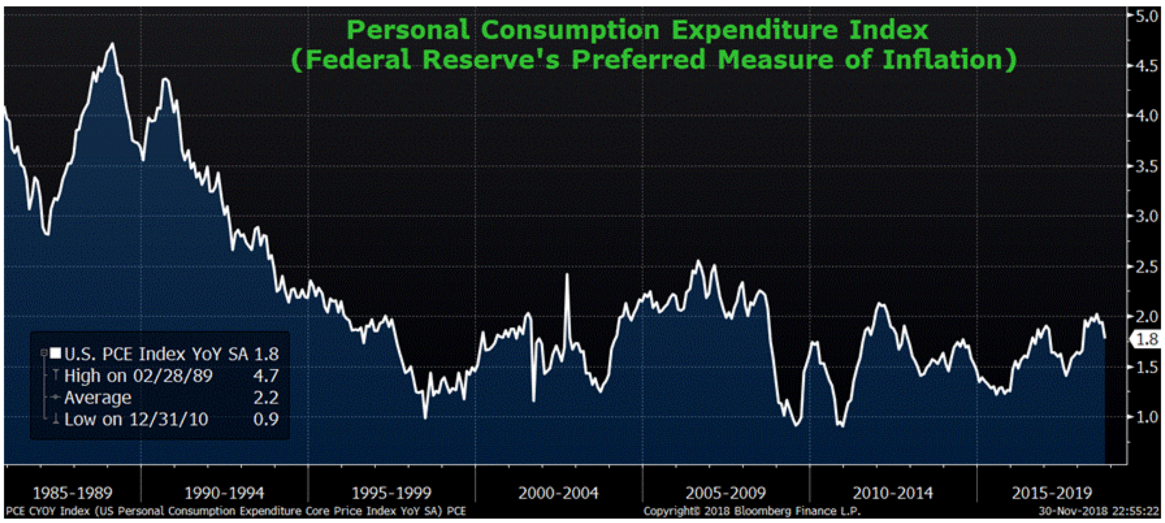
Historical Analysis for Meeting 12/19/2018 — 4) Add/Remove Series

A rate hike this month is in the cards even after very well received comments on Wednesday from Jerome Powell that seemingly turned the *CNBC* star's frown upside down. The Fed Chair said, "Interest rates are still low by historical standards, and they remain just below the broad range of estimates of the level that would be neutral for the economy that is, neither speeding up nor slowing down growth. My FOMC colleagues and I, as well as many private-sector economists, are forecasting continued solid growth, low unemployment, and inflation near 2 percent."

AFAM CAPITAL

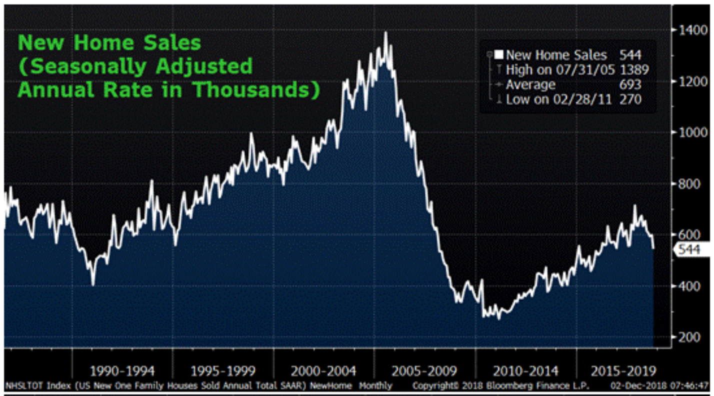
THE PRUDENT SPECULATOR
Inflation Remains Relatively Low

While the Federal Reserve is always on guard for overly robust increases in the prices of goods and services, the dip in the Personal Consumption Expenditure (PCE) in October to 1.8% pushed the Fed's preferred inflation gauge down below Jerome Powell & Co's desired 2.0% level, and reduced the likelihood of significantly tighter monetary policy.



And, though some of the economic numbers of late have left a lot to be desired,…

THE PRUDENT SPECULATOR
Soft Housing Data



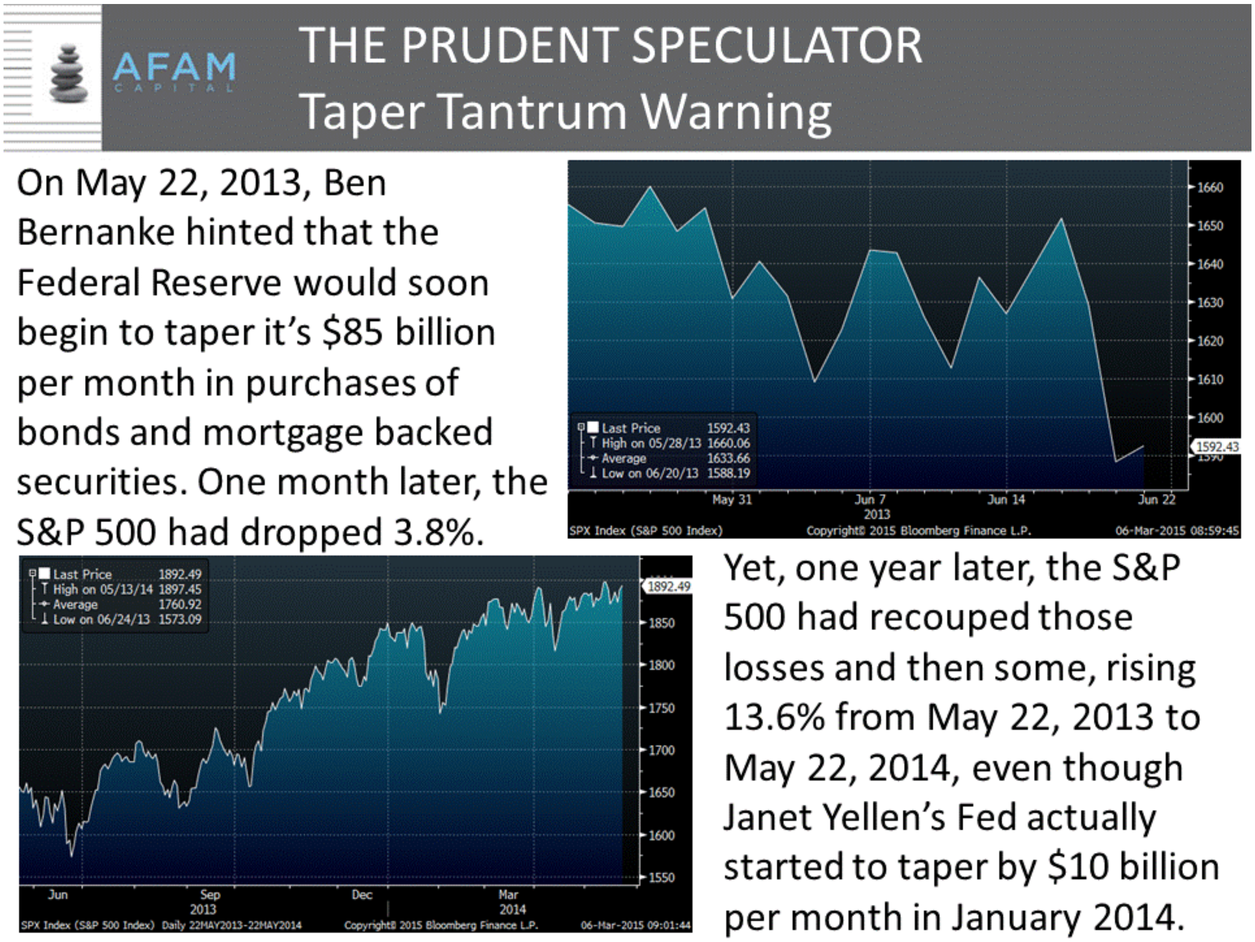
Though higher mortgage rates are the primary culprit, more than offsetting a strong labor market and robust consumer confidence, sales of new homes fell in October to a seasonally adjusted annual rate of 544,000. Meanwhile, sales of existing homes at 5.22 million in October, though up slightly from the prior month, dropped 5.1% on a year-over-year basis.

…positive developments over the weekend on the global trade front have the equity futures poised for a continuation of last week's rally when trading resumes today, arguably providing that second hurdle to take stocks to Mr. Cramer's "Bullish Promised Land."

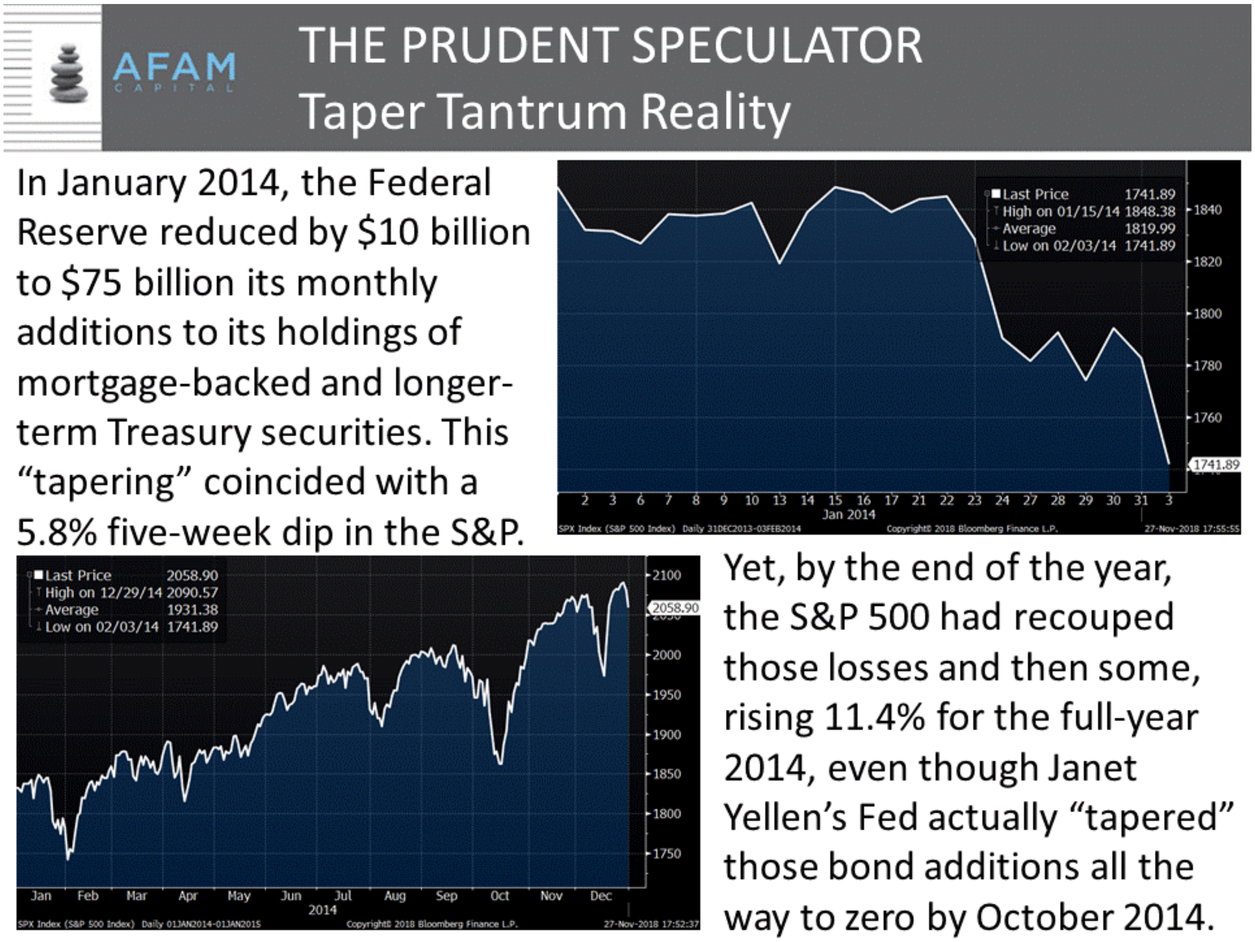
Certainly, we respect the right of pundits to change their mind, but the Cramer saga illustrates yet again that the only problem with market timing is getting the timing right. Yes, downturns, corrections and Bear Markets are no fun, but they have always given way to upswings, rallies and Bull Markets. The key, of course, is for those with a long-term time investment time horizon to ignore the siren calls to sell out which always seem to grow loudest after a sell-off has already occurred.

While some have suggested that we have nerves of steel, we have long been fond of the Vannevar Bush quotation, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation." Indeed, looking at actual market data to evaluate disconcerting claims can be extremely valuable. For example, last week we read in *The Wall Street Journal*, "So far, Mr. Draghi and his top officials have avoided causing any 'taper tantrum' in financial markets, similar to that unleashed when the Federal Reserve wound down its own bond-buying programs four years ago."

The piece suggested that the Fed had somehow wreaked havoc on the U.S. equity markets several years back, yet the historical evidence very much argues otherwise, whether we look at 2013,...



…or 2014.

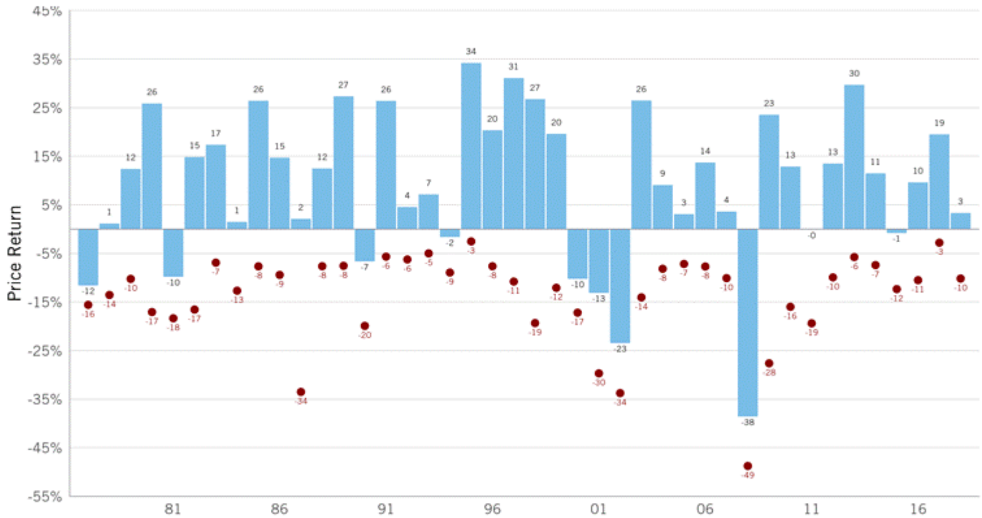


To be sure, not everyone has easy access to the numbers, and financial journalists and market pundits don’t necessarily mean to mislead, even as they must be provocative to attract any attention, but far too much of what is passed off as fact is actually fiction.

Certainly, we are not suggesting that stocks will always appreciate, as there are always plenty of headwinds blowing, while just about every year there is a scary downturn,…

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.

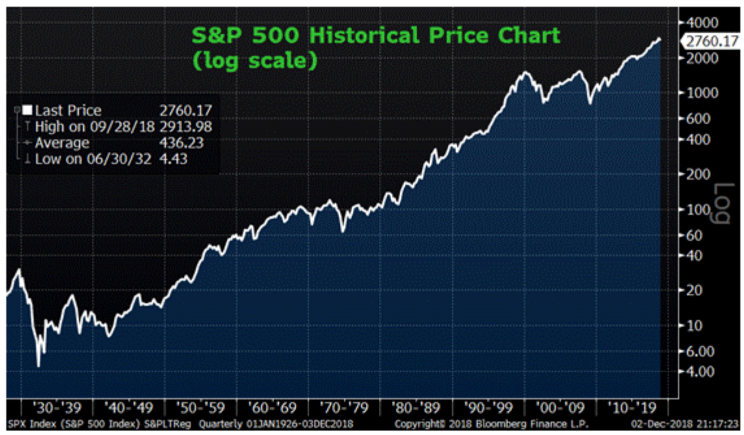


From 12.31.76 through 12.01.18. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2016 return is year to date. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

…but the long-term trend for equities has been higher.

THE PRUDENT SPECULATOR
Ups & Downs, But Long-Term Trend Is Up

The Bursting of the Tech Bubble in 2000-2002 and the Financial Crisis/Great Recession in 2007-2009 are about the only visible blips on the long-term (back to 1927) chart of the S&P 500 index, but if one utilizes a log-scale for the Y-axis, the swings of the equity markets over the past 90 years are more easily evident. Of course, the long-term trend has been very favorable AND these charts show only price appreciation of the S&P 500, ignoring the historically lucrative impact of dividends and their reinvestment.



Stock Updates

Keeping in mind that all stocks are rated as “Buy” until such time as they are a “Sell,” a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. Jason Clark and Chris Quigley offer updates on six of our stocks that had news last week that was of sufficient importance to trigger a review of their respective Target Prices…

CVS Health (CVS - $80.20) completed its acquisition of **Aetna** (AET) last week, with holders of the managed-healthcare giant receiving a taxable distribution of $145.00 in cash and 0.8378 shares of CVS Health common stock for each AET share. Note that while custodians like Charles Schwab over the weekend had been reflecting only the cash received as the taxable consideration in the deal, documents related to the merger and the FAQ’s from CVS’s Web site make it very clear that the combined value of the cash and stock is taxable.

While we cannot provide tax advice to our readers, CVS said, “In general, your exchange of shares of Aetna common stock for cash and shares of CVS Health is a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local, or foreign income or other tax laws. You should consult your tax advisor about the tax consequences of exchanging your shares pursuant to the offer in light of your particular circumstances." Further, CVS added, "The cost basis of your CVS Health stock received in the Aetna merger is the fair market value of CVS Health stock as of the date of the merger, which was $79.50. The holding period for your CVS Health stock began the day after the merger."

Performing the math, shareholders thus received $145.00 + ($79.50 * 0.8378) = $211.61 per share in taxable consideration, though a CVS press release rounded that number: "The transaction values Aetna at $212 per share or approximately $70 billion. Including the assumption of Aetna's debt, the total value of the transaction is $78 billion…The Aetna brand name will continue to be used in reference to the health insurance products. Going forward, Aetna will operate as a standalone business within the CVS Health enterprise and will be led by members of its current management team."

The company continued, "As a result of the acquisition, shareholders are expected to benefit from a number of outcomes, including enhanced competitive positioning; the delivery of more than $750 million in synergies in 2020; and a platform from which to accelerate growth. The roadmap for value creation over the longer term has the potential to deliver substantial incremental value through the development of products and services that provide the opportunity to generate significant new growth opportunities aimed at reducing medical costs, growing membership and enhancing revenues."

Despite the growing competitive landscape, we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model with Aetna in the fold. CVS shares are now trading for 10.8 times projected next-twelve-month earnings and yielding 2.5%. Our long-term Target Price for CVS resides at $127.

Shares of global automobile manufacturing giant **General Motors** (GM – $37.95) rallied last week after the company announced that it would look to cut costs by idling five North American plants and trimming its workforce. It said the proactive move would ease the burden of spending billions of dollars to develop the battery-powered vehicles of the future, while the plans are expected to increase annual adjusted automotive free cash flow by $6 billion by year-end 2020 on a run-rate basis.

CEO Mary Barra commented, "The actions we are taking today continue our transformation to be highly agile, resilient and profitable, while giving us the flexibility to invest in the future. We recognize the need to stay in front of changing market conditions and customer preferences to position our company for long-term success."

While one might argue that GM should be commended for right-sizing its business for the long-term when times are good, with Ms. Barra adding that the company will "improve resilience through the cycle," no one was surprised that the labor unions were not fans of plans to cut jobs AND the loudest critic seemed to be the POTUS. President Trump threatened to punish GM by ending federal tax credits that have helped underwrite the automaker's electric car fleet. "Very disappointed with General Motors and their CEO, Mary Barra, for closing plants in Ohio, Michigan and Maryland," Mr. Trump wrote in a social media post. "Nothing being closed in Mexico & China."

Referring to GM's federal rescue from bankruptcy in 2009, the President added, "The U.S. saved General Motors, and this is the THANKS we get! We are now looking at cutting all @GM subsidies, including for electric cars." GM defended itself by saying that the company was working to create a stronger financial footing for the future, in order to better navigate the inevitable ups and downs of the auto biz by shedding money-losing operations and refocusing its resources.

As the President and others in the White House (Director of National Economic Council, Larry Kudlow, said "There's a lot of disappointment, even anger") voiced their displeasure about the announcement, GM put out a statement essentially saying, "We appreciate the actions this administration has taken on behalf of industry to improve the overall competitiveness of U.S. manufacturing." No doubt, GM would have anticipated that the current administration would be unhappy as bringing back manufacturing jobs was a major campaign promise, so we believe the negative political pressure will cool, especially as there is nothing to say that manufacturing future products won't occur here at home.

Notwithstanding the human implications for workers at the impacted plants and the 25% fewer executives to streamline decision making, as shareholders, we like the moves. We think they are further proof that this is not the GM of old that went through massive booms and busts…and that if then-management had been as forward thinking prior to the Financial Crisis, Uncle Sam would not have had to bail out the company, saving taxpayers billions of dollars. Noting that old GM shareholders were basically wiped out in the Crisis, our current ownership in the new GM does not come with the same kind of pension obligations and gigantic debt load. Further, we continue to believe that GM is executing on its core business well. We like the idea of an even better balance sheet, cost control initiatives, ability to generate free cash flow and generous capital return programs. Even after last week's bump up (+5.5%), the stock trades for just 6.3 times NTM earnings projections and yields 4.0%. Further, the consensus EPS estimate for 2020 stands at $5.89. Not surprisingly, we continue to see meaningful upside in the shares with our Target Price driven ahead a bit to $55.

North-of-the-Border financial giant **Canadian Imperial Bank** (CM – $83.88) earned $2.30 per share in fiscal Q4 2018 (vs. $2.27 est.). The bank had a Basel III common equity Tier 1 ratio of 11.4% (compared with the 11.3% to 11.7% range analysts were expecting), a return on equity of 15.3% and a higher-than-estimated provision for credit losses, the latter causing some consternation for market participants.

CEO Victor G. Dodig stated, "The quarter capped the strong year for our bank, where we made significant progress in executing our client-focused strategy and to deliver value for our shareholders. We met all of our financial targets that we set out for you on our Investor Day last December, with adjusted earnings per share of 10% which is at the upper end of our 5% to 10% target range and an ROE of 17% meeting our target of delivering more than a 15% ROE. We successfully diversified our earnings by investing for organic growth in all four of our business units. Specifically in Personal & Small Business Banking, we achieved volume growth on both sides of the balance sheet."

Mr. Dodig closed, “We've delivered very well on our plan to build a strong client-focused franchise, diversify our earnings growth, optimize our operational efficiency and maintain our capital discipline. Our efforts are not only delivering financial results, they are also transforming our bank from a technology and innovation perspective as well as from a client relationship perspective. At CIBC, we've always been here to serve our clients, that was true 151 years ago and it's true today. In good times and in challenging economic times, our focus remains on helping our clients achieve their goals. We're focused on wiring every facet of our bank to ensure that we continue to transform our culture, develop our team and bring the best of our bank to our clients and communities every day.”

We have been pleased that the company’s organic growth remains solid across the organization, and like that CM in making inroads in the U.S. While the Private Bank acquisition was on the rich end, we believe it gave CM a needed market exposure boost. CM also benefits from the Canadian government keeping the banking segment attractive by maintaining barriers to entry. CM trades for less than 9 times forward earnings estimates and yields a solid 4.9%. Our Target Price now stands at $112.

Shares of marine shipper **Tsakos Energy Navigation** (TNP – $3.37) rallied a few percent last week after the company announced its Q3 financial results and said that one of its vessels had entered a fixed contract with profit provisions over the next 18 months with a major oil company. Q3 financial results saw adjusted EPS come in at a loss of $0.17 per share, better than the consensus analyst estimate calling for a loss of $0.21. Of course, the overall operating environment remains difficult, with TNP shares still down more than 13% in 2018, even as industry conditions have improved considerably of late.

Management explained, “As we approach the end of 2018, the signs that the worst is behind are becoming increasingly evident. Global oil demand is continuing its upward trajectory, US crude exports are soaring and finding new destinations in China and India and the global tanker fleet where most of that oil will be shipped is tightening. As scrapping outpaces new deliveries and the much-discussed IMO 2020 sulphur regulations will create supply distortions, the outlook for tankers looks more positive, than over the past three quarters…In view of this upturn, management will keep a close eye on developments and refine its employment approach accordingly in order to maximize returns to shareholders, but still maintain a strong complement of vessels on long-term secured contracts to cover the whole fleet’s expenses. Moreover, cash generation and preservation will remain high on the agenda and therefore efficient, effective and safe vessel management will continue to be pursued vigorously, something TNP has taken pride in since inception.”

COO George Saroglou added, “With three difficult quarters of 2018 now behind us, TNP is already taking advantage of the strong rates available in the fourth quarter. With market fundamentals such as stronger oil demand, lower vessel capacity and adequate oil supplies, particularly from the US, positively affecting tanker trades, this current upturn seems sustainable. In addition, with the positive, for owners with young tonnage, disruptions the IMO 2020 rules would create in the vessel supply and demand balance, TNP will be well poised to take advantage of the strong freight environment. The number of vessels in the spot market, those on profit-share arrangements and the 10 ships that will be available for re-charter after expiration of current term employment reinforces this optimism.”

No doubt, TNP has been a disappointment for the last few years, and we continue to have numerous internal debates about its place in our portfolios. That said, overall, we desire the exposure and we feel that TNP is set up with its contract structure to not only survive, but thrive, as business conditions improve, while we have at least had some rewards for our patience via the generous dividend. TNP shares change hands at 0.6 times estimated sales and 19% of book value per share, both ratios well below the historical norms. With a relatively young fleet and desire to make it younger, 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 and oil-service companies that account for the lion’s share of our Energy Sector exposure. Sporting a current dividend yield of 5.9%, our Target Price for TNP floats at $5.80.

Shares of memory maker **Micron Technology** (MU – $38.56) rose modestly last week after CEO Sanjay Mehrotra spoke at the Credit Suisse Technology Conference in Scottsdale, Arizona. Mr. Mehrotra said, “When you look at having both DRAM and NAND as well as the 3D XPoint kind of technologies under the same roof at Micron. There are three companies that have DRAM, there are only two companies that have 3D XPoint. Micron is the one that actually has all three and is the only one that has all three of these technologies. That really excited me, but coupled with all the market trends today in diversified markets for DRAM as well as NAND secular demand trends and trend of artificial intelligence absolutely requiring more and more memory and storage across applications whether it is Cloud data center or it is your smartphone or autonomous vehicles of the future. It’s very exciting to look at the demand trend for the future having a strong technology portfolio and absolutely having tremendous potential that the company can yet capture by speeding up its execution, by accelerating its technology, cost effectiveness, driving mix of high value solutions.”

Mr. Mehrotra bumped up the guidance slightly, “We expect our revenue for FQ1 to be near the low end of the range that we guided to previously. And overall, Micron continues to execute actually very well. And we had guided in terms of EPS to $2.95 plus or minus $0.07 in our last September earnings call. Through strong execution we actually see our EPS for FQ1 to be somewhat above the mid-range that we had guided to, mid-range – midpoint of the range that we had guided to. Midpoint being $2.95, we see it somewhat above the $2.95. And I think what's important to understand is that, that is very robust level of profitability for the company and the company absolutely continues to execute well..”

Mr. Mehrotra shared his thoughts on the HDD vs. SSD battle, “I think what's important to also understand for NAND is that the end market drivers for NAND particularly with elasticity of NAND, displacement of HDDs by SSDs in Cloud and data center applications as well as increasing the attach rate of SSDs in your notebook, all of these trends actually absorb NAND output given the elasticity of the market fairly well. You'll see average capacities over time certainly can have some lag. But over time average capacities in notebook PCs of SSDs will increase supported by attractive price points of NAND driving demand signals stronger. Similarly, you'll see stronger displacement of HDDs with SSDs and Cloud and Enterprise again driving those. So these demand drivers and you'll see average capacity continuing to increase for NAND as well as for DRAM and smartphones as well because in the future all the trends around 5G, et cetera, they only require more memory and mode storage."

While analysts project EPS to decrease in fiscal 2019 to $10.14 and in fiscal 2020 to $9.23, down from $11.95 in 2018, we believe that MU's valuation is still very compelling (the company sports a forward P/E among the lowest in our universe (3.8)). We appreciate that memory and data storage have been historically volatile businesses, but we think that MU sits in a good spot for future growth and we believe that solid state storage is the way of the future for its size, performance and energy saving properties. Micron is scheduled to report fiscal Q1 results on December 18. Our Target Price for MU is now $81.