

MARKET COMMENTARY MONDAY, DECEMBER 31, 2018

December 30, 2018

EXECUTIVE SUMMARY

TPS 627 – January Newsletter Coming by the End of the Week

Miraculous Rebound – 4.98% Single Day Gains in the Dow Have Happened 60 Other Times

Week in Review – Market Turnaround

Volatility Lesson – Wild Swings of Late, But Bigger Gyration in 1987, 2008, 2009 and 2011

History Lesson – 2011 Had a Bear Market

2018 Bear – Plenty of Stocks and Indexes Had a 20% Decline this Year

Prediction – Difficult, Especially if it is About the Future

Reasons for Optimism – Valuations, Interest Rates, Economy, Corporate Profits, Recent History and Sentiment

Fearless Forecast – Dow 46,000 by 2029

Stock Updates – Nothing New to Report this Week

Market Review

All of us at *The Prudent Speculator* wish our readers a healthy, prosperous and tranquil New Year!

Work will be getting underway on the January edition of *The Prudent Speculator*. We are aiming to have *TPS 627* emailed no later than Friday, January 4. This month, we will offer two first-time stock recommendations, while our Graphic Detail is expected to include our semi-annual sector allocations and index attribution features.

Given that Monday saw the worst downturn in U.S. market history for a Christmas Eve, it is nice to be able to recap a positive Christmas Week for equities. Indeed, the S&P 500 and Russell 3000 indexes bounced back to close up 2.89% and 2.97%, respectively, for the week, while the Dow Jones Industrial Average recovered 2.75%. And speaking of the Dow, Boxing Day saw that popular market gauge skyrocket 1,086 points, or 4.98%, causing the good folks at *CNN* to declare the comeback “miraculous!”



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Outsized DJIA Single Day Price Moves

Days like Dec. 26, 2018, are rare, but since 1927 there have been 60 other times when the Dow gained at least 4.98% 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		1	0	0	0	1	0	0	0	0	2
Years Ending in 1		9	0	0	0	0	0	0	0	0	9
Years Ending in 2		19	0	0	0	0	0	0	2	0	21
Years Ending in 3		12	0	0	0	0	0	0	0	0	12
Years Ending in 4		0	0	0	0	0	0	0	0	0	0
Years Ending in 5		0	0	0	0	0	0	0	0	0	0
Years Ending in 6		0	0	0	0	0	0	0	0	0	0
Years Ending in 7		1	0	0	0	0	2	0	0	0	3
Years Ending in 8	0	0	0	0	0	0	0	1	4	1	6
Years Ending in 9	5	1	0	0	0	0	0	0	2		8
Totals	5	43	0	0	0	1	2	1	8	1	61

From 12.31.27 though 12.28.18. Days of index price return gains of more than 4.98%. 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		3	2	0	0	0	0	0	1	0	6
Years Ending in 1		4	0	0	0	0	0	0	1	1	6
Years Ending in 2		20	0	0	1	0	0	0	0	0	21
Years Ending in 3		8	0	0	0	0	0	0	0	0	8
Years Ending in 4		1	0	0	0	0	0	0	0	0	1
Years Ending in 5		0	0	1	0	0	0	0	0	0	1
Years Ending in 6		0	1	0	0	0	0	0	0	0	1
Years Ending in 7		4	0	0	0	0	2	1	0	0	7
Years Ending in 8	0	1	0	0	0	0	1	1	9	0	12
Years Ending in 9	8	1	0	0	0	0	1	0	0		10
Totals	8	42	3	1	1	0	4	2	11	1	73

From 12.31.27 though 12.28.18. Days of index price return drops of more than 4.98%. SOURCE: Al Frank using data from Bloomberg

With the understanding that we live in a sensationalistic media world, there have been 60 previous “miracles” of even greater scale in the past 90 years! Of course, that is not to say that the massive advance on December 26 was ho-hum, but a bounce in equities was long overdue given the relentless selling over the three previous weeks.

Frankly, we were more impressed with the action the following day, when a mid-day 600-point retreat in the Dow on December 27 gave way to a furious rally that drove the index to a 250-point gain by the close of trading. Certainly, we are not market technicians, but we think there is some validity in the assertion put forth by one long-time CNBC television personality who remarked, “This is what a bottom looks like,” given that an 850-point intraday swing to close at the highs of the session is very promising.



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Investing is an Emotional Roller-Coaster

The thrashing in December continued, with stocks enduring their worst Christmas Eve ever, before Santa Claus made a spectacular appearance on the 26th, when the Dow Jones Industrial Average soared by 1,086 points, the greatest point advance in history. And the wild gyrations continued on the 27th and 28th, even as the week ended nicely higher.



Of course, many were quick to proclaim that the incredible volatility we have been seeing in the markets is the most extreme they have ever witnessed. No doubt, we all suffer from recency bias, but those statements are not supported by the historical evidence as 2011 (and 2009, 2008 and 1987) endured far more volatile trading, with five of six trading days in early August that year seeing changes on a closing basis of magnitude of at least 4.4%.



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Volatility 2018: Far Greater Previously

Market Volatility																			
S&P 500 Index Daily Change																			
2018			2011			2009			2008			1987							
10/18/2018	-1.4%	11/23/2018	-0.7%	7/27/2011	-2.0%	8/31/2011	0.5%	1/2/2009	3.2%	2/9/2009	0.1%	9/15/2008	-4.7%	10/20/2008	4.8%	10/13/1987	1.7%	11/17/1987	-1.5%
10/19/2018	0.0%	11/26/2018	1.6%	7/28/2011	-0.3%	9/1/2011	-1.2%	1/5/2009	-0.5%	2/10/2009	-4.9%	9/16/2008	1.8%	10/21/2008	-3.1%	10/14/1987	-3.0%	11/18/1987	1.0%
10/22/2018	-0.4%	11/27/2018	0.3%	7/29/2011	-0.6%	9/2/2011	-2.5%	1/6/2009	0.8%	2/11/2009	0.8%	9/17/2008	-4.7%	10/22/2008	-6.1%	10/15/1987	-2.3%	11/19/1987	-2.2%
10/23/2018	-0.6%	11/28/2018	2.3%	8/1/2011	-0.4%	9/6/2011	-0.7%	1/7/2009	-3.0%	2/12/2009	0.2%	9/18/2008	4.3%	10/23/2008	1.3%	10/16/1987	-5.2%	11/20/1987	0.8%
10/24/2018	-3.1%	11/29/2018	-0.2%	8/2/2011	-2.6%	9/7/2011	2.9%	1/8/2009	0.3%	2/13/2009	-1.0%	9/19/2008	4.0%	10/24/2008	-3.5%	10/19/1987	-20.5%	11/23/1987	0.4%
10/25/2018	1.9%	11/30/2018	0.8%	8/3/2011	0.5%	9/8/2011	-1.1%	1/9/2009	-2.1%	2/17/2009	-4.6%	9/22/2008	-3.8%	10/27/2008	-3.2%	10/20/1987	5.3%	11/24/1987	1.4%
10/26/2018	-1.7%	12/3/2018	1.1%	8/4/2011	-4.8%	9/9/2011	-2.7%	1/12/2009	-2.3%	2/18/2009	-0.1%	9/23/2008	-1.6%	10/28/2008	10.8%	10/21/1987	9.1%	11/25/1987	-0.9%
10/29/2018	-0.7%	12/4/2018	-3.2%	8/5/2011	-0.1%	9/12/2011	0.7%	1/13/2009	0.2%	2/19/2009	-1.2%	9/24/2008	-0.2%	10/29/2008	-1.1%	10/22/1987	-3.9%	11/27/1987	-1.5%
10/30/2018	1.6%	12/6/2018	-0.2%	8/8/2011	-6.7%	9/13/2011	0.9%	1/14/2009	-3.3%	2/20/2009	-1.1%	9/25/2008	2.0%	10/30/2008	2.6%	10/23/1987	0.0%	11/30/1987	-4.2%
10/31/2018	1.1%	12/7/2018	-2.3%	8/9/2011	4.7%	9/14/2011	1.3%	1/15/2009	0.1%	2/23/2009	-3.5%	9/26/2008	0.3%	10/31/2008	1.5%	10/26/1987	-8.3%	12/1/1987	0.7%
11/1/2018	1.1%	12/10/2018	0.2%	8/10/2011	-4.4%	9/15/2011	1.7%	1/16/2009	0.8%	2/24/2009	4.0%	9/29/2008	-8.8%	11/3/2008	-0.3%	10/27/1987	2.4%	12/2/1987	0.6%
11/2/2018	-0.6%	12/11/2018	0.0%	8/11/2011	4.6%	9/16/2011	0.6%	1/20/2009	-5.3%	2/25/2009	-1.1%	9/30/2008	5.4%	11/4/2008	4.1%	10/28/1987	0.0%	12/3/1987	-3.5%
11/5/2018	0.6%	12/12/2018	0.5%	8/12/2011	0.5%	9/19/2011	-1.0%	1/21/2009	4.3%	2/26/2009	-1.6%	10/1/2008	-0.5%	11/5/2008	-5.3%	10/29/1987	4.9%	12/4/1987	-0.6%
11/6/2018	0.6%	12/13/2018	0.0%	8/15/2011	2.2%	9/20/2011	-0.2%	1/22/2009	-1.5%	2/27/2009	-2.4%	10/2/2008	-4.0%	11/6/2008	-5.0%	10/30/1987	2.9%	12/7/1987	2.2%
11/7/2018	2.1%	12/14/2018	-1.9%	8/16/2011	-1.0%	9/21/2011	-2.9%	1/23/2009	0.5%	3/2/2009	-4.7%	10/3/2008	-1.4%	11/7/2008	2.9%	11/2/1987	1.6%	12/8/1987	2.7%
11/8/2018	-0.3%	12/17/2018	-2.1%	8/17/2011	0.1%	9/22/2011	-3.2%	1/26/2009	0.6%	3/3/2009	-0.6%	10/6/2008	-3.9%	11/10/2008	-1.3%	11/3/1987	-1.9%	12/9/1987	1.7%
11/9/2018	-0.9%	12/18/2018	0.0%	8/18/2011	-4.5%	9/23/2011	0.6%	1/27/2009	1.1%	3/4/2009	2.4%	10/7/2008	-5.7%	11/11/2008	-2.2%	11/4/1987	-0.7%	12/10/1987	-2.2%
11/12/2018	-2.0%	12/19/2018	-1.5%	8/19/2011	-1.5%	9/26/2011	2.3%	1/28/2009	3.4%	3/5/2009	-4.3%	10/8/2008	-1.1%	11/12/2008	-5.2%	11/5/1987	2.2%	12/11/1987	0.7%
11/13/2018	-0.1%	12/20/2018	-1.6%	8/22/2011	0.0%	9/27/2011	1.1%	1/29/2009	-3.3%	3/6/2009	0.1%	10/9/2008	-7.6%	11/13/2008	6.9%	11/6/1987	-1.6%	12/14/1987	2.9%
11/14/2018	-0.8%	12/21/2018	-2.1%	8/23/2011	3.4%	9/28/2011	-2.1%	1/30/2009	-2.3%	3/9/2009	-1.0%	10/10/2008	-1.2%	11/14/2008	-4.2%	11/9/1987	-2.9%	12/15/1987	0.3%
11/15/2018	1.1%	12/24/2018	-2.7%	8/24/2011	1.3%	9/29/2011	0.8%	2/2/2009	-0.1%	3/10/2009	6.4%	10/13/2008	11.6%	11/17/2008	-2.6%	11/10/1987	-1.7%	12/16/1987	2.2%
11/16/2018	0.2%	12/26/2018	5.0%	8/25/2011	-1.6%	9/30/2011	-2.5%	2/3/2009	1.6%	3/11/2009	0.2%	10/14/2008	-0.5%	11/18/2008	1.0%	11/11/1987	1.2%	12/17/1987	-2.1%
11/19/2018	-1.7%	12/27/2018	0.9%	8/26/2011	1.5%	10/3/2011	-2.8%	2/4/2009	-0.7%	3/12/2009	4.1%	10/15/2008	-9.0%	11/19/2008	-6.1%	11/12/1987	2.7%	12/18/1987	2.5%
11/20/2018	-1.8%	12/28/2018	-0.1%	8/29/2011	2.8%	10/4/2011	2.2%	2/5/2009	1.6%	3/13/2009	0.8%	10/16/2008	4.3%	11/20/2008	-6.7%	11/13/1987	-1.2%	12/21/1987	0.2%
11/21/2018	0.3%			8/30/2011	0.2%			2/6/2009	2.7%			10/17/2008	-0.6%			11/16/1987	0.5%		
Average Change:	1.2%	Average Change:	1.9%	Average Change:	2.0%	Average Change:	3.8%	Average Change:	2.6%										
# of 2%+ Moves	10	# of 2%+ Moves	21	# of 2%+ Moves	21	# of 2%+ Moves	32	# of 2%+ Moves	24										

And speaking of 2011, it is stunning that so many seem to forget that the year included a Bear Market for numerous indexes, not to mention the average stock...



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Market of Stocks — 2011 Bear Market

2011 Bear Market							
Start	End	Perf	Instrument	Start	End	Perf	Instrument
4/29/2011	10/3/2011	-26.6%	Russell 3000 Average Stock	4/29/2011	10/3/2011	-28.8%	NASDAQ Composite Average Stock
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway	7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average	4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF	2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF	7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.	5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index	4/29/2011	10/3/2011	-19.4%	S&P 500 Index
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index	4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index	2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index	4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index	7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index	4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index	5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index	5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index	4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index	4/29/2011	10/3/2011	-20.9%	Wilshire 5000

...and that the S&P 500 was down more than 21.6% (the definition of a Bear Market is a 20% drop) from peak to trough on an intraday basis.

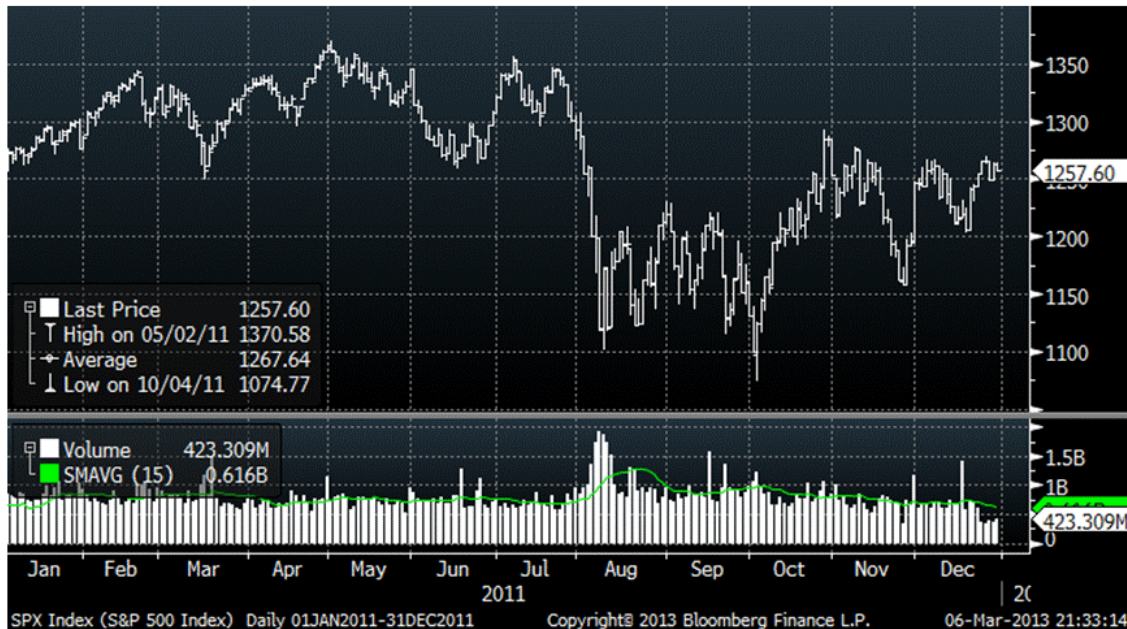


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Bull Market Began 10.04.11, Not 03.09.09

S&P 500: With a Bear Market defined as a 20% decline, a 21.6% peak-to-trough drop on an intraday basis took place in 2011...



The above is germane in that so many market watchers have long been of the mind that the 2011 Bear Market didn't count as the maximum loss on the S&P 500 that year was *only* 19.4% on a closing basis. This allowed the naysayers to argue that the Bull Market was very long in the tooth, as they believed the current rally began on March 9, 2009.

We use the term "current" as we suspect that those same pundits, assuming last week's closing low is not breached, might soon be making the same "aged" arguments, as the latest downturn saw the S&P 500 lose *just* 19.8% from its closing high on September 20 to its closing low on December 24. Obviously, those who actually own stocks know that trading does not just happen at the end of each day, so we think the peak-to-trough skid on the S&P 500 of 20.2% from 9:30 A.M. Eastern time on September 21 to 10:37 AM Eastern time on December 26 very much counts as a Bear Market.

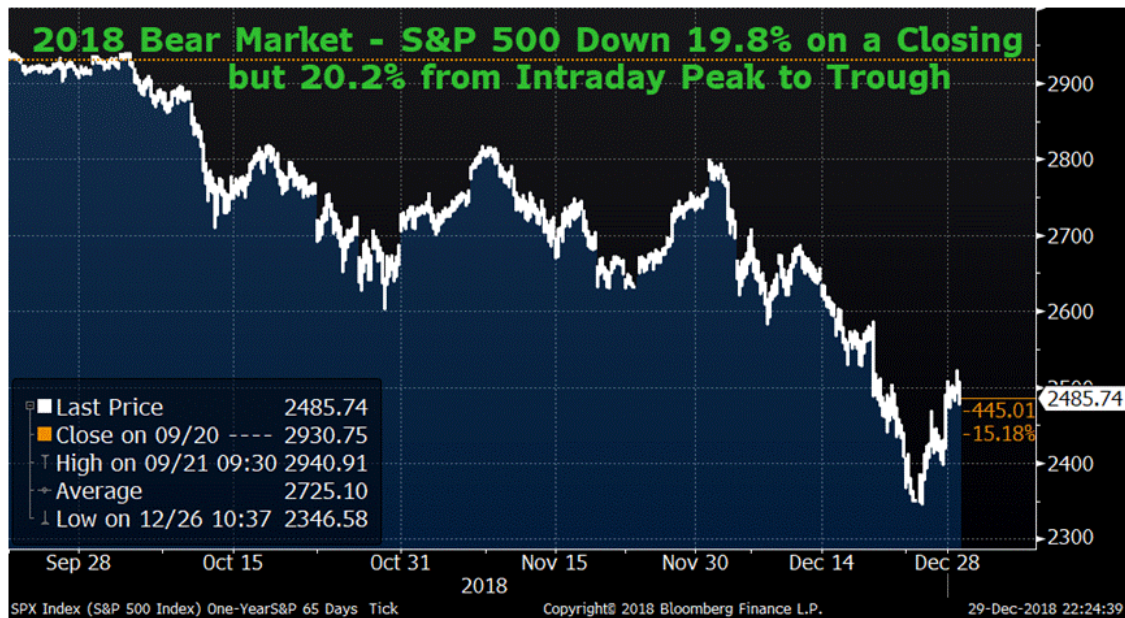


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2018 Bear Market: 09.21.18 – 12.26.18

While some correctly called it a Bear Market, given the 20.2% decline on an intraday basis from the high on 9.21.18 to the low on 12.26.18, the loss from 9.20.18 to 12.24.18 on a closing basis was “only” 19.8%



And, for those that need a little more convincing, there have been Bear Markets aplenty this year for the average stock and most other indexes!



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Market of Stocks — 2018 Bear Market

2018 Bear Market							
Start	End	Perf	Instrument	Start	End	Perf	Instrument
9/20/2018	12/24/2018	-24.58%	Russell 3000 Average Stock	8/28/2018	12/24/2018	-24.64%	NASDAQ Composite Average Stock
10/3/2018	12/26/2018	-19.44%	Dow Jones Industrial Average	8/29/2018	12/24/2018	-23.28%	S&P 500 Pure Growth Index
8/30/2018	12/24/2018	-23.89%	NASDAQ Composite Index	1/24/2018	12/26/2018	-25.36%	S&P 500 Pure Value Index
9/21/2018	12/26/2018	-20.46%	Russell 1000 Index	2/1/2018	12/24/2018	-22.90%	S&P 500 Communication Services
8/31/2018	12/24/2018	-27.28%	Russell 2000 Index	10/1/2018	12/24/2018	-23.88%	S&P 500 Consumer Discretionary
9/21/2018	12/26/2018	-20.91%	Russell 3000 Index	1/29/2018	12/26/2018	-18.12%	S&P 500 Consumer Staples Secto
9/21/2018	12/26/2018	-20.21%	S&P 500 Index	5/22/2018	12/26/2018	-32.25%	S&P 500 Energy Sector GICS Lev
10/1/2018	12/24/2018	-22.64%	Russell 1000 Growth Index	1/29/2018	12/26/2018	-27.13%	S&P 500 Financials Sector GICS
1/26/2018	12/26/2018	-20.64%	Russell 1000 Value Index	10/1/2018	12/24/2018	-16.90%	S&P 500 Health Care Sector GIC
8/31/2018	12/24/2018	-29.11%	Russell 2000 Growth Index	1/29/2018	12/26/2018	-25.86%	S&P 500 Industrials Sector GIC
8/27/2018	12/26/2018	-25.99%	Russell 2000 Value Index	10/3/2018	12/24/2018	-24.50%	S&P 500 Information Technology
10/1/2018	12/24/2018	-23.02%	Russell 3000 Growth Index	1/26/2018	12/26/2018	-26.58%	S&P 500 Materials Sector GICS
1/26/2018	12/26/2018	-20.69%	Russell 3000 Value Index	12/6/2018	12/24/2018	-12.83%	S&P 500 Real Estate Sector GIC
10/1/2018	12/24/2018	-21.34%	S&P 500 Growth Index	12/13/2018	12/24/2018	-9.20%	S&P 500 Utilities Sector GICS
1/26/2018	12/26/2018	-21.63%	S&P 500 Value Index				

Needless to say, it has been a brutal quarter that has tried the patience of even the heartiest investor, but volatility is the price we must pay for having the opportunity to achieve handsome long-term returns,...



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Volatility is Normal: Stocks Win the Race

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

Advancing Markets						
Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	107.9%	916	26	3.5	3/9/2009	9/20/2018
17.5%	67.6%	585	37	2.5	10/3/2011	9/20/2018
15.0%	67.2%	567	43	2.1	10/3/2011	9/20/2018
12.5%	44.1%	334	70	1.3	2/11/2016	9/20/2018
10.0%	35.0%	248	104	0.9	2/8/2018	9/20/2018
7.5%	23.4%	147	153	0.6	2/8/2018	9/20/2018
5.0%	14.6%	72	298	0.3	12/24/2018	12/27/2018

Declining Markets						
Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.6	1/6/2009	3/9/2009
-17.5%	-30.3%	222	37	2.4	9/20/2018	12/24/2018
-15.0%	-28.3%	192	43	2.1	9/20/2018	12/24/2018
-12.5%	-22.6%	140	70	1.3	9/20/2018	12/24/2018
-10.0%	-19.3%	102	104	0.9	9/20/2018	12/24/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/24/2018
-5.0%	-10.9%	37	297	0.4	12/3/2018	12/24/2018

From 02.20.28 through 12.27.18. 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: AFAM Capital using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS		
	Annualized Return	Standard Deviation
Value Stocks	13.3%	25.9%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.5%
Long-Term Corporate Bonds	5.9%	7.5%
Long-Term Gov't Bonds	5.3%	8.5%
Intermediate Gov't Bonds	5.0%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 10.31.18. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: AFAM Capital using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

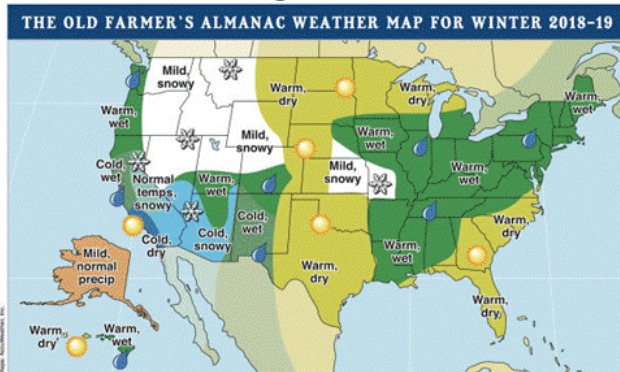
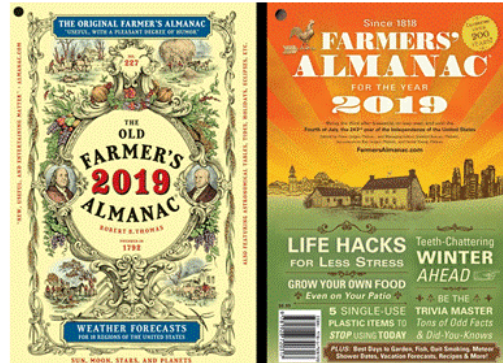
...while the inevitable ups and downs are about as hard to predict as the weather, yet that won't stop the soothsayers from making prognostications.



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THE PRUDENT SPECULATOR Prediction is Difficult...

As stocks provided another reminder that the only problem with market timing is getting the timing right, *The Wall Street Journal* ran a feature on the folly of prognostication, with the *Old Farmer's Almanac* predicting a mild winter for the U.S. and the *Farmer's Almanac* projecting “teeth-chattering cold ahead.”



While our crystal ball is as cloudy as ever when it comes to the near term, especially as developments related to the Government Shutdown and Trade Skirmish seem destined to drive trading over the coming days and weeks, we remain convinced that equity investors with long-term time horizons will continue to be rewarded in the fullness of time,...



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The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 10-year U.S. Treasury today, with its 2.72% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.72%	Count <=2.72%	Percent >2.72%
1 Month	676	420	61.7%
3 Months	720	374	65.8%
6 Months	747	344	68.5%
1 Year	775	310	71.4%
2 Year	856	217	79.8%
3 Year	894	167	84.3%
5 Year	896	141	86.4%
7 Year	943	70	93.1%
10 Year	934	43	95.6%
15 Year	905	12	98.7%
20 Year	857	0	100.0%

DIVIDEND PAYERS

	Count >2.72%	Count <=2.72%	Percent >2.72%
1 Month	666	430	60.8%
3 Months	711	383	65.0%
6 Months	755	336	69.2%
1 Year	777	308	71.6%
2 Year	864	209	80.5%
3 Year	859	202	81.0%
5 Year	890	147	85.8%
7 Year	920	93	90.8%
10 Year	913	64	93.4%
15 Year	887	30	96.7%
20 Year	856	1	99.9%

From 07.31.27 through 10.31.18. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: AFAM Capital using data from Professors Eugene F. Fama and Kenneth R. French

...as valuations are very reasonable, especially given the recent plunge in interest rates,...



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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 rich earnings yield of 5.89%.



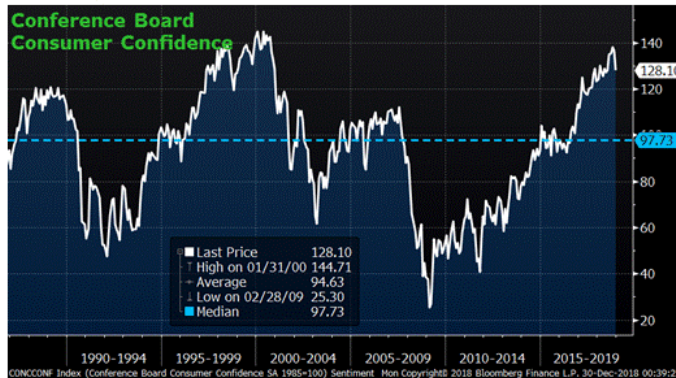
...and the most recent economic data points are not showing any signs that a major recession is on the horizon,...



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Healthy Economic Numbers



While Consumer Confidence dipped 8.3 points in December to a weaker-than-expected reading of 128.1, the Conference Board's calculation remains well above the long-term average and at elevated levels that have not been seen in 18 years. And, first-time filings for jobless benefits came in at 216,000 in the latest week, a figure that remains just above the lowest tallies recorded in our monthly data series dating back to 1987.



...which bodes well for corporate profits in 2019.



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Significant EPS Growth Estimated

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2019	\$45.41	\$172.09
9/30/2019	\$44.37	\$167.08
6/30/2019	\$42.57	\$164.09
3/31/2019	\$39.74	\$160.17
12/31/2018	\$40.40	\$156.97
9/30/2018	\$41.38	\$150.42
ACTUAL		
6/30/2018	\$38.65	\$140.37
3/31/2018	\$36.54	\$132.23
12/31/2017	\$33.85	\$124.51
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	\$25.70	\$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 12.27.18

History shows that stock prices generally have followed earnings, so it is nice to see rising actual and projected EPS, even as earnings forecasts often turn out to be too rosy. Happily, the number of companies (76.9%) that exceeded expectations for Q3 2018 was far better than the average beat-rate over the prior 5 years.

S&P 500 Quarterly Earnings Comparisons								
	BEAT	MISSED	MET		BEAT	MISSED	MET	
Q2 2018	80.0%	14.8%	5.2%	Q3 2015	67.9%	23.0%	9.0%	
Q1 2018	77.0%	17.2%	5.8%	Q2 2015	69.8%	22.0%	8.3%	
Q4 2017	75.0%	16.4%	8.6%	Q1 2015	67.7%	22.9%	9.4%	
Q3 2017	72.6%	19.1%	8.3%	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%	AVERAGE	70.2%	20.9%	9.0%	

Source: Standard & Poor's

Further, we think that the awfulness of the fourth quarter has discounted a significant amount of bad news that may or may not actually materialize,...



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Good (on average) Has Followed Ugly

While one day remains, the fourth quarter of 2018 has been awful, with the S&P 500 showing a price decline of -14.7%. Quarterly losses of that magnitude of greater have occurred 20 times previously over the past 90 years, but the ensuing quarter, no doubt helped by massive rebounds during the Great Depression, has enjoyed an average gain of 10.7%.



Quarter Ending	Quarterly Gain/Loss	Next Quarter Gain/Loss
6/30/1932	-39.4%	82.4%
9/30/1931	-34.5%	-16.4%
12/31/1929	-28.9%	17.2%
9/30/1974	-26.1%	7.9%
12/31/1937	-23.3%	-19.4%
12/31/1987	-23.2%	4.8%
12/31/2008	-22.6%	-11.7%
6/29/1962	-21.3%	2.8%
3/31/1938	-19.4%	36.0%
6/30/1970	-18.9%	15.8%
9/30/1946	-18.8%	2.3%
6/30/1930	-18.6%	-9.1%
6/28/1940	-18.1%	6.8%
9/30/2002	-17.6%	7.9%
12/31/1930	-17.5%	8.8%
3/31/1939	-16.4%	-1.1%
12/31/1931	-16.4%	-10.0%
3/31/1933	-15.5%	86.5%
9/28/2001	-15.0%	10.3%
12/31/1941	-14.8%	-7.8%
Averages:	-21.3%	10.7%

Since 1927. Price Return. Source: AFAM using data from Bloomberg

...while we like that investor sentiment (often a contra indicator) is about as pessimistic as can be.

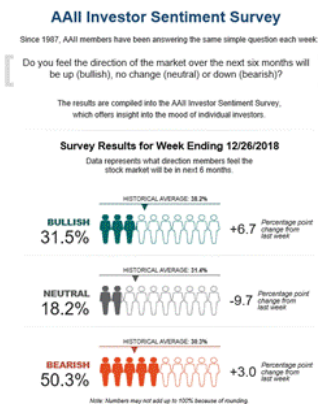


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AAll Sentiment – Contrarian Buy Signal

Certainly, there is no guarantee that past is prologue, while stocks have plunged in December despite very Bearish readings for the AAll Bull-Bear Spread, but the contrarian gauge continues to reside at some of its lowest levels in years, with the number of Bears moving above 50% for the first time since 2013. Not surprisingly, AAll numbers and subsequent equity performance confirms that folks should be greedy when others are fearful, especially for those with longer-term time horizons!



AAll Bull-Bear Spread											
Decile	Low	High	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Reading of the Range	Reading of the Range									
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	796	0.17%	0.15%	0.49%	0.41%	2.07%	1.84%	4.64%	4.16%
Ten Groupings of 1611 Data Points											
1	-54.0	-14.3	160	0.34%	0.28%	1.23%	0.99%	4.04%	3.42%	8.06%	6.65%
2	-14.3	-7.0	163	0.39%	0.36%	1.31%	1.19%	3.98%	3.64%	7.44%	6.85%
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	3.4	157	0.17%	0.14%	1.21%	1.13%	2.66%	2.35%	6.01%	5.58%
5	3.5	8.0	163	-0.01%	-0.04%	0.50%	0.40%	2.61%	2.36%	5.07%	4.53%
6	8.1	12.5	157	0.14%	0.13%	0.42%	0.33%	1.70%	1.48%	4.61%	4.09%
7	12.5	17.0	171	0.15%	0.13%	0.90%	0.82%	2.93%	2.74%	5.99%	5.58%
8	17.0	22.6	151	0.27%	0.25%	0.68%	0.60%	2.14%	1.86%	5.67%	5.18%
9	22.7	30.5	164	0.11%	0.09%	0.28%	0.20%	2.13%	1.87%	4.53%	3.93%
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 12.27.18. Unannualized. SOURCE: AJ Frank using data from American Association of Individual Investors and Bloomberg

So, while we must brace for more turbulence, we remain very optimistic about the three-to-five-year prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.



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Portfolio & Benchmark 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	12.2	10.6	1.0	1.6	3.2
Buckingham	12.6	10.7	0.9	1.6	3.1
Millennium	12.5	10.6	0.9	1.6	3.2
PruFolio	12.5	10.6	0.9	1.6	3.3
Russell 3000	18.2	15.8	1.7	2.8	2.2
Russell 3000 Growth	23.1	19.4	2.5	6.1	1.5
Russell 3000 Value	15.0	13.4	1.3	1.8	2.8
Russell 1000	17.4	15.5	1.9	2.9	2.2
Russell 1000 Growth	21.1	18.7	2.6	6.4	1.6
Russell 1000 Value	14.8	13.3	1.4	1.9	2.8
S&P 500 Index	17.0	15.3	1.9	3.0	2.2
S&P 500 Growth Index	22.3	19.2	3.3	5.0	1.6
S&P 500 Value Index	13.4	12.5	1.3	2.1	2.7
S&P 500 Pure Value Index	9.7	9.0	0.5	1.1	3.2

As of 12.29.18. 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.

But, for those who insist that we make a guess as to where stocks are headed, how about a wild forecast like Dow 40000 by 2029!



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Miracle of Compounding: Dow 40000

It is amazing how relative modest yearly return numbers can lead to substantial growth when time and simple math are applied. For example, Dow 40000 by the year 2029 would be achieved with annual price gains for the index of 5.6%...which is merely the historical average.

Miracle of Compounding - Dow 40000 by 2029

(Initial Value of Dow Jones Industrial Average = 23062, December 28, 2018)

	Inflation 3.0%	Intermediate Gov't Bonds TR 5.0%	Dow Jones Industrial Average Price Return 5.6%	Corporate Bonds TR 5.9%	S&P 500 TR 10.0%	Fama/French Dividend Stocks TR 10.5%	Fama/French Value Stocks TR 13.3%
Dec-18	23,062	23,062	23,062	23,062	23,062	23,062	23,062
Dec-19	23,754	24,215	24,353	24,423	25,368	25,484	26,129
Dec-20	24,466	25,426	25,717	25,864	27,905	28,159	29,604
Dec-21	25,200	26,697	27,157	27,390	30,696	31,116	33,542
Dec-22	25,956	28,032	28,678	29,006	33,765	34,383	38,003
Dec-23	26,735	29,434	30,284	30,717	37,142	37,993	43,057
Dec-24	27,537	30,905	31,980	32,529	40,856	41,983	48,784
Dec-25	28,363	32,451	33,771	34,448	44,941	46,391	55,272
Dec-26	29,214	34,073	35,662	36,481	49,435	51,262	62,623
Dec-27	30,091	35,777	37,659	38,633	54,379	56,644	70,952
Dec-28	30,993	37,566	39,768	40,913	59,817	62,592	80,389
Dec-31	33,867	43,487	46,830	48,590	79,616	84,451	116,919
Dec-33	35,930	47,944	52,222	54,492	96,336	103,117	150,088
Dec-38	41,653	61,190	68,577	72,580	155,150	169,880	280,217

Compounded at average annualized rates that have been the historical returns on each investment from June 1927 to October 2018. Source: Al Frank using data from Morningstar, Bloomberg and Professor's Eugene F. Fama & Kennerh R. French. Past performance not a guarantee of future performance.

Stock Updates

Nothing significant in the way of corporate news during Christmas Week, so we offer the reminder that all stocks are rated as "Buy" until such time as they are a "Sell" and that a listing of all current recommendations is available for download via the following link: <https://theprudentspeculator.com/dashboard/>.