EXECUTIVE SUMMARY

Market Review

It was another frigid five days for investors as the December swoon continued. Plagued by a near-500-point plunge in the Dow Jones Industrial Average on Friday, the S&P 500 and Russell 3000 index fell 1.22% and 1.39% respectively, for the second week of the month, while Value again trailed Growth. The Russell 3000 Value index skidded 1.93%, versus a 0.83% loss for the Russell 3000 Growth index.

While we know that market gyrations are a constant hurdle on the path to long-term success with equities, with 10% declines happening more than once per year on average,…

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THE PRUDENT SPECULATOR
Volatility is Normal: Stocks Win the Race

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	107.9%	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%	14.7%	72	297	0.3	11/23/2018	12/3/2018

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%	-30.6%	225	36	2.5	4/29/2011	10/3/2011
-15.0%	-28.5%	195	42	2.1	4/29/2011	10/3/2011
-12.5%	-22.7%	140	69	1.3	5/21/2015	2/11/2016
-10.0%	-19.2%	102	104	0.9	9/20/2018	12/14/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/14/2018
-5.0%	-10.9%	37	297	0.4	12/3/2018	12/14/2018

From 02.20.28 through 12.14.18. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: AFAM Capital using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.4%	25.9%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	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 09.30.18. 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

…the main catalyst for last week's decline, aside from events in Washington (Cabinet shakeup, legal drama and the threat of another Government Shutdown), was concern about the outlook for global economic growth.

The European Central Bank said on Thursday, "While incoming information has been weaker than expected, reflecting softer external demand but also some country and sector-specific factors, the underlying strength of domestic demand continues to underpin the euro area expansion and gradually rising inflation pressures. This supports our confidence that the sustained convergence of inflation to our aim will proceed and will be maintained even after the end of our net asset purchases. At the same time, uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent."

And, China reported that industrial production on a year-over-year basis rose by *just* 5.4%, compared to expectations for 5.9% growth, while retail sales climbed *only* 8.1% versus forecasts of an 8.8% increase. Not surprisingly, perhaps, President Trump was quick to tweet, "China just announced that their economy is growing much slower than anticipated because of our Trade War with them. They have just suspended U.S. Tariff Hikes. U.S. is doing very well. China wants to make a big and very comprehensive deal. It could happen, and rather soon!"

We might have expected possible progress on the trade front to trump modestly disappointing news on the global economic stage, as expectations have not exactly been high for worldwide GDP growth going forward,…

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THE PRUDENT SPECULATOR
IMF World Economic Outlook – Oct '18

IMF Global Growth Projections

		IMF WEO Projections		Difference from 7/18	
	2017	2018	2019	2018	2019
World Output	**3.7**	**3.7**	**3.7**	**–0.2**	**–0.2**
Advanced Economies	**2.3**	**2.4**	**2.1**	**0.0**	**–0.1**
United States	**2.2**	**2.9**	**2.5**	**0.0**	**–0.2**
Euro Area	**2.4**	**2.0**	**1.9**	**–0.2**	**0.0**
Germany	2.5	1.9	1.9	–0.3	–0.2
France	2.3	1.6	1.6	–0.2	–0.1
Italy	1.5	1.2	1.0	0.0	0.0
Spain	3.0	2.7	2.2	–0.1	0.0
Japan	1.7	1.1	0.9	0.1	0.0
United Kingdom	1.7	1.4	1.5	0.0	0.0
Canada	3.0	2.1	2.0	0.0	0.0
Emerging Market/Developing Econ	**4.7**	**4.7**	**4.7**	**–0.2**	**–0.4**
Commonwealth of Independent States	2.1	2.3	2.4	0.0	0.2
Russia	1.5	1.7	1.8	0.0	0.3
Emerging and Developing Asia	6.5	6.5	6.3	0.0	–0.2
China	**6.9**	**6.6**	**6.2**	**0.0**	**–0.2**
India	6.7	7.3	7.4	0.0	–0.1
Emerging and Developing Europe	6.0	3.8	2.0	–0.5	–1.6
Latin America and the Caribbean	1.3	1.2	2.2	–0.4	–0.4
Brazil	1.0	1.4	2.4	–0.4	–0.1
Mexico	2.0	2.2	2.5	–0.1	–0.2

Source: International Monetary Fund, World Economic Outlook Update, October 2018

Global growth for 2018–19 is projected to remain steady at its 2017 level, but its pace is less vigorous than projected in April and it has become less balanced. Downside risks to global growth have risen in the past six months and the potential for upside surprises has receded. Global growth is projected at 3.7 percent for 2018–19—0.2 percentage point lower for both years than forecast in April. The downward revision reflects surprises that suppressed activity in early 2018 in some major advanced economies, the negative effects of the trade measures implemented or approved between April and mid-September, as well as a weaker outlook for some key emerging market and developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills.

…with the Middle Kingdom expected to slow next year, even before the latest escalations in the tariff skirmish, and with likely European growth in 2019 long believed to be lackluster at best. True, the European Central Bank did slightly lower its outlook for annual real GDP in the Eurozone to increase by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021, with the projection for next year below the October IMF 1.9% figure, but the near-term outlook for U.S. economic growth has actually improved in recent weeks,...

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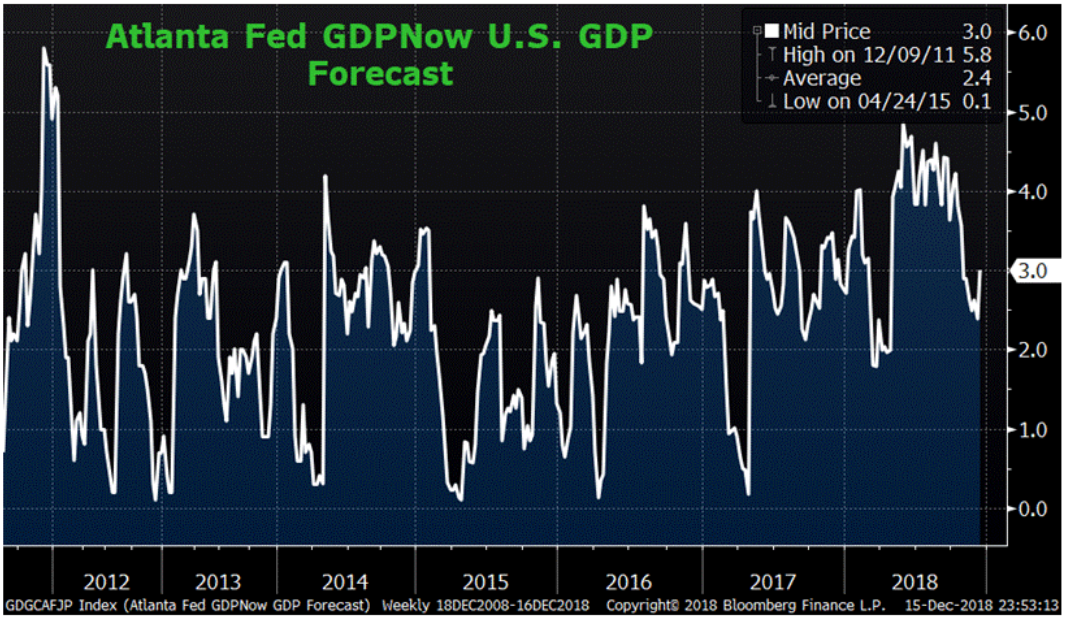
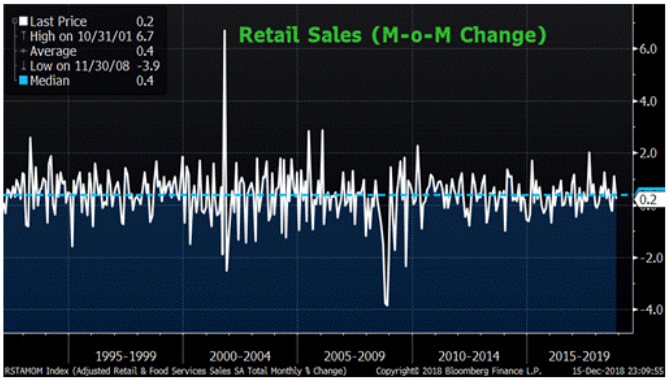
THE PRUDENT SPECULATOR
Improving Near-Term Econ Outlook

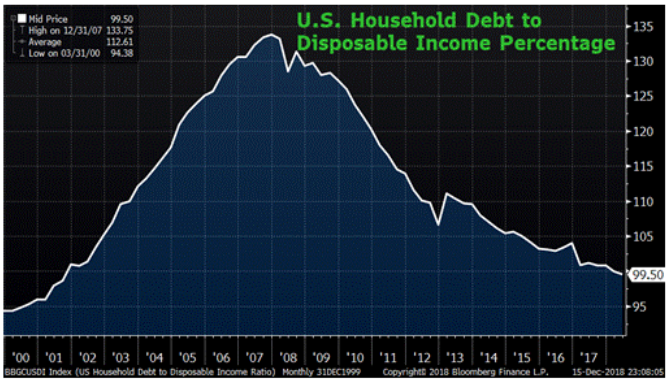
While we respect that growth expectations for the U.S. economy in 2019 and 2020 are lower, the latest projection for Q4 GDP growth has moved sharply higher over the last two weeks, despite the plunge in U.S. stocks.



…as data on the health of the American consumer has been upbeat,…

THE PRUDENT SPECULATOR
Healthy Consumer Pocketbooks

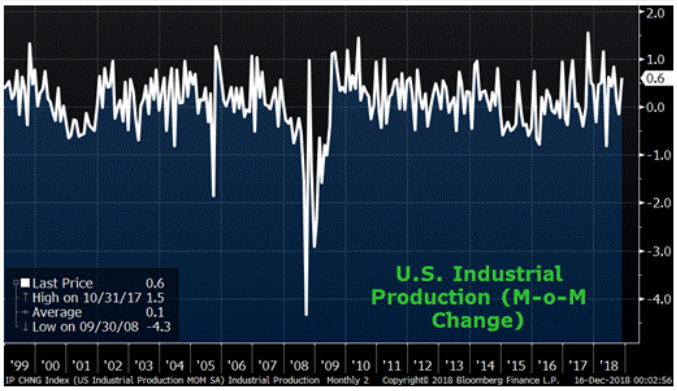




Per the Commerce Department, overall retail sales for November rose 0.2%, beating estimates of a 0.1% advance, with department store sales climbing 0.4% and so-called non-store retailers like Amazon seeing a 1.4% jump. Meanwhile, consumer wallets remain relatively healthy as the Federal Reserve just reported that the ratio of overall household debt to disposable income dipped to 98% in Q3, down from 99.5% in Q2, and the lowest level since 2002.

…while other statistics also have been favorable,...

THE PRUDENT SPECULATOR
Robust Economic Numbers



The Federal Reserve reported that industrial production for November came well above expectations with a 0.6% increase thanks to strength in utilities and mining, while capacity utilization tallied an in-line reading of 78.5%. Also, first-time filings for jobless benefits skidded to a much-better-than-expected 206,000 in the latest week, a figure that is just above the lowest level recorded in our monthly data series dating back to 1987.

…even as expectations for 2019 and 2020 have long been cautious.

Subdued LT Economic Growth Expected

The Fed's latest quarterly estimates called for longer-run GDP growth of 1.8%, with 2.5% and 2.0% the expectations for 2019 and 2020. All of those numbers are below the relatively strong 3.1% projected for 2018.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, September 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	2021	Longer run	2018	2019	2020	2021	Longer run	2018	2019	2020	2021	Longer run
Change in real GDP	3.1	2.5	2.0	1.8	1.8	3.0 – 3.2	2.4 – 2.7	1.8 – 2.1	1.6 – 2.0	1.8 – 2.0	2.9 – 3.2	2.1 – 2.8	1.7 – 2.4	1.5 – 2.1	1.7 – 2.1
June projection	2.8	2.4	2.0	n.a.	1.8	2.7 – 3.0	2.2 – 2.6	1.8 – 2.0	n.a.	1.8 – 2.0	2.5 – 3.0	2.1 – 2.7	1.5 – 2.2	n.a.	1.7 – 2.1
Unemployment rate	3.7	3.5	3.5	3.7	4.5	3.7	3.4 – 3.6	3.4 – 3.8	3.5 – 4.0	4.3 – 4.6	3.7 – 3.8	3.4 – 3.8	3.3 – 4.0	3.4 – 4.2	4.0 – 4.6
June projection	3.6	3.5	3.5	n.a.	4.5	3.6 – 3.7	3.4 – 3.5	3.4 – 3.7	n.a.	4.3 – 4.6	3.5 – 3.8	3.3 – 3.8	3.3 – 4.0	n.a.	4.1 – 4.7
PCE inflation	2.1	2.0	2.1	2.1	2.0	2.0 – 2.1	2.0 – 2.1	2.1 – 2.2	2.0 – 2.2	2.0	1.9 – 2.2	2.0 – 2.3	2.0 – 2.2	2.0 – 2.3	2.0
June projection	2.1	2.1	2.1	n.a.	2.0	2.0 – 2.1	2.0 – 2.2	2.1 – 2.2	n.a.	2.0	2.0 – 2.2	1.9 – 2.3	2.0 – 2.3	n.a.	2.0
Core PCE inflation[4]	2.0	2.1	2.1	2.1		1.9 – 2.0	2.0 – 2.1	2.1 – 2.2	2.0 – 2.2		1.9 – 2.0	2.0 – 2.3	2.0 – 2.2	2.0 – 2.3	
June projection	2.0	2.1	2.1	n.a.		1.9 – 2.0	2.0 – 2.2	2.1 – 2.2	n.a.		1.9 – 2.1	2.0 – 2.3	2.0 – 2.3	n.a.	
Memo: Projected appropriate policy path															
Federal funds rate	2.4	3.1	3.4	3.4	3.0	2.1 – 2.4	2.9 – 3.4	3.1 – 3.6	2.9 – 3.6	2.8 – 3.0	2.1 – 2.4	2.1 – 3.6	2.1 – 3.9	2.1 – 4.1	2.5 – 3.5
June projection	2.4	3.1	3.4	n.a.	2.9	2.1 – 2.4	2.9 – 3.4	3.1 – 3.6	n.a.	2.8 – 3.0	1.9 – 2.6	1.9 – 3.6	1.9 – 4.1	n.a.	2.3 – 3.5

Source: Federal Reserve, September 26, 2018

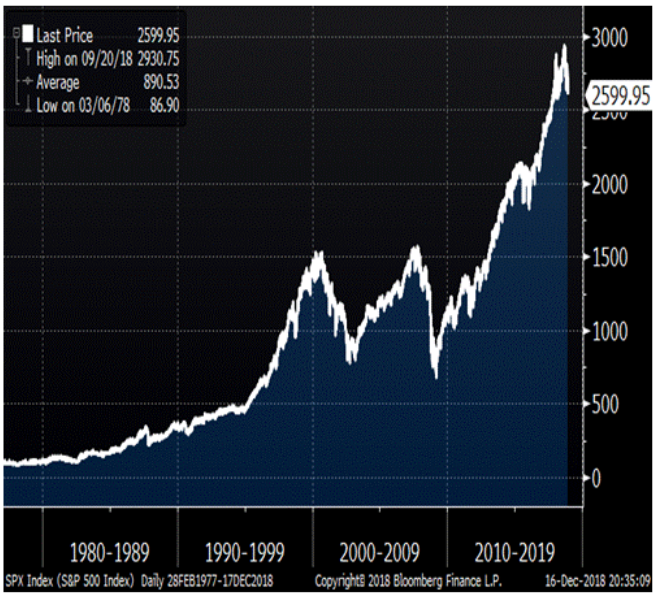
Obviously, anything can happen in the short run, especially as the current decline, incredibly, is not as yet even in the top 24 of what has been endured over the past four-plus-decades,…

THE PRUDENT SPECULATOR
Staying the Course Has Rewards

Despite enduring two-dozen market pullbacks of at least 12% since the end of 1976, the S&P 500 has appreciated significantly rising from a reading of 107.46 to almost 2600, not counting dividends!

Start Date		End Date	Price Return %	Start Date		End Date	Price Return %
11.03.15	to	02.11.16	-13.3	03.24.00	to	04.04.01	-27.8
05.21.15	to	08.25.15	-12.4	07.16.99	to	10.15.99	-12.1
04.29.11	to	10.03.11	-19.4	07.17.98	to	08.31.98	-19.3
04.23.10	to	07.02.10	-16.0	07.16.90	to	10.11.90	-19.9
01.06.09	to	03.09.09	-27.6	10.21.87	to	12.04.87	-13.3
11.04.08	to	11.20.08	-25.2	08.25.87	to	10.19.87	-33.2
05.19.08	to	10.27.08	-40.5	10.10.83	to	07.24.84	-14.4
10.09.07	to	03.10.08	-18.6	11.30.81	to	08.12.82	-18.9
11.27.02	to	03.11.03	-14.7	11.28.80	to	09.25.81	-19.7
08.22.02	to	10.09.02	-19.3	02.13.80	to	03.27.80	-17.1
01.04.02	to	07.23.02	-32.0	09.12.78	to	11.14.78	-13.6
05.21.01	to	09.21.01	-26.4	12.31.76	to	03.06.78	-19.1
						AVERAGE	-20.6

Down Markets for the S&P 500 Price Return index are defined as periods where the index fell more than 12% without an intervening 12% advance. SOURCE: Al Frank using data from Bloomberg



…but we continue to like that equity valuations are very attractive (the forward P/E ratio on TPS Portfolio is 10.9), given that solid earnings growth still is likely in 2019, dividend yields are very generous (TPS Portfolio has a current payout ratio of 3.1%) and interest rates have tumbled anew (the yield on the 10-year U.S. Treasury is 2.9%).

To be sure, we understand that most folks think corrections are healthy…until they are in one, but we also point out that those who are able to take a deep breath and remember their market history might be especially excited about what is presently transpiring as several data points are flashing signals that have previously marked major bottoms in stocks.

For example, *The New York Times* wrote on Saturday, "So far this year, there have been 12 instances of the S&P 500 moving at least 3% from its intraday low to its high. Four of those swings were greater than 4%...This figure is the most in a single year since 2011, when the European debt crisis flared up and Standard & Poor's cut its rating on United States Government debt." The *Times* added, "The average intraday swing this month is the highest since January 2016." Happily, returns on stocks have been very good since both of those periods,…

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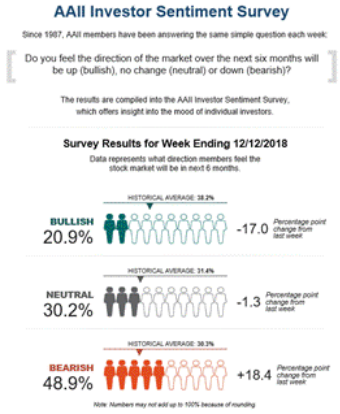
THE PRUDENT SPECULATOR
Despite Adversity, Trend Has Been Higher

Some may find it amazing that U.S. stock prices have more than doubled (with even bigger gains if dividends are included) since 2011, a highly volatile year in which the European debt crisis was front and center and Standard & Poor's downgraded its rating on U.S. government debt.

… providing more support for Warren Buffett's admonition, "Be greedy when others are fearful and fearful when others are greedy." And, clearly, folks are very fearful these days, with investor sentiment down in the dumps,…

THE PRUDENT SPECULATOR
AAII Sentiment – Contrarian Buy Signal

Certainly, there is no guarantee that history will repeat, but the massive -35.4 point plunge on Dec. 12, 2018 in the AAII Bull-Bear Spread sent the contrarian gauge to its lowest level since Feb. 11, 2016, with the number of Bears now at the highest tally since April 11, 2013. From the prior Bull-Bear Spread low, the S&P 500 has returned 50.6% through Dec. 14 2018, with the gains since the 2013 Bear Peak now standing at 83.4%. Not surprisingly, extreme investor pessimism can be very Bullish!



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	794	0.17%	0.15%	0.49%	0.41%	2.06%	1.83%	4.68%	4.20%
Ten Groupings of 1606 Data Points											
1	-54.0	-14.1	162	0.37%	0.30%	1.34%	1.09%	4.12%	3.50%	8.18%	6.79%
2	-14.1	-7.0	161	0.37%	0.34%	1.21%	1.09%	3.90%	3.57%	7.31%	6.71%
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	157	0.14%	0.13%	0.42%	0.33%	1.70%	1.48%	4.61%	4.09%
7	12.7	17.0	170	0.16%	0.14%	0.90%	0.81%	2.91%	2.72%	6.10%	5.70%
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	163	0.11%	0.10%	0.28%	0.19%	2.12%	1.86%	4.60%	4.00%
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 12.13.18. Unannualized. SOURCE: Al Frank using data from American Association of Individual Investors and Bloomberg

…and mutual and exchange traded fund owners heading for the hills. Indeed, reports out late last week saw Lipper calculate that more than $46 billion was redeemed from U.S. stock mutual funds and ETFs between Dec. 5 and Dec. 12, the largest weekly outflow since the data provider began tracking weekly flows in 1992.

Certainly, we realize that more than a few market pundits are warning that a Bear Market is imminent, but we would argue that such an event (for the average stock) has been underway for a while now,…

A (Bear) Market of Stocks

While the financial press and most supposed investment experts continue to proclaim that equities have been in a nine-plus-year Bull Market, when one understands that it is a market of stocks, and not simply a stock market, it is a very different story.

S&P 500 Members Below 52-Week High

	-40%	-35%	-30%	-25%	-20%	-15%	-10%	-5%
# Below	58	91	133	203	260	324	379	445
Total	507	507	507	507	507	507	507	507
% Below	11.4%	17.9%	26.2%	40.0%	51.3%	63.9%	74.8%	87.8%

Source: Bloomberg. As of 12.14.18

Russell 3000 Members Below 52-Week High

	-40%	-35%	-30%	-25%	-20%	-15%	-10%	-5%
# Below	835	1098	1391	1716	2083	2375	2632	2841
Total	3015	3015	3015	3015	3015	3015	3015	3015
% Below	27.7%	36.4%	46.1%	56.9%	69.1%	78.8%	87.3%	94.2%

Source: Bloomberg. As of 12.14.18

…which has us believing that a not-so-mild recession in the U.S. economy (something that does not appear to be on the horizon) already has been discounted, and that those with strong stomachs should be running towards stocks while the masses are heading in the other direction.

And those looking to do a little bargain hunting might want to shop for companies over the next couple of weeks that likely have been victims of tax-loss selling. After all, with equities in the red this year, we know that there has been extra pressure on the year's biggest losers from folks looking to offset gains. Below, we put together a list of what we believe to be undervalued names, all of which are presently off 30% or more from their 52-week highs AND are up no more than 3.3% from their 52-week lows.

POTENTIAL JANUARY TAX-LOSS REBOUND CANDIDATES

Symbol	Common Stock	Below 52-Wk-Hi	Above 52-Wk-Lo	12.14.18 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AXAHY	AXA SA	-36.5%	0.0%	21.49	42.32	Insurance	7.2	nmf	1.1	nmf	nmf	nmf	5.7%	52,433
GS	Goldman Sachs	-37.2%	0.2%	172.77	290.34	Diversified Financials	6.9	nmf	0.9	nmf	nmf	nmf	1.9%	66,789
JBL	Jabil Inc	-31.3%	0.3%	21.84	44.39	Technology Hardware	8.3	0.2	3.3	3.6	-2.2	239%	1.5%	3,450
KEY	KeyCorp	-32.5%	0.3%	15.13	26.98	Banks	9.2	nmf	1.4	nmf	nmf	nmf	4.5%	15,652
BHE	Benchmark Electronics	-34.0%	0.3%	21.46	32.82	Technology Hardware	14.0	0.4	1.0	5.2	-2.9	16%	2.8%	938
FITB	Fifth Third Bancorp	-31.7%	0.3%	23.68	39.32	Banks	10.0	nmf	1.3	nmf	nmf	nmf	3.0%	15,525
MCK	McKesson	-34.8%	0.4%	116.66	197.33	Health Care Equip/Srvcs	8.7	0.1	nmf	19.3	11.6	nmf	1.3%	22,793
DPSGY	Deutsche Post AG	-43.9%	0.4%	28.14	55.04	Transportation	14.9	0.5	nmf	7.5	5.3	1786%	4.9%	34,795
CMA	Comerica	-32.8%	0.5%	68.98	105.38	Banks	10.5	nmf	1.6	nmf	nmf	nmf	3.5%	11,154
TPR	Tapestry	-37.7%	0.5%	34.60	59.04	Consumer Durables	12.9	1.7	nmf	9.6	8.2	1665%	3.9%	10,027
MAN	ManpowerGroup	-50.1%	0.5%	68.38	138.23	Commercial/Pro Srvcs	7.9	0.2	3.7	5.2	8.1	90%	3.0%	4,228
FDX	FedEx	-33.0%	0.6%	184.11	336.85	Transportation	11.3	0.7	3.9	7.9	-2.0	124%	1.4%	48,516
NOV	National Oilwell Varco	-45.6%	0.6%	26.68	44.01	Energy	nmf	1.3	2.3	16.6	2.1	60%	0.7%	10,228
C	Citigroup	-31.8%	0.7%	55.02	103.46	Banks	8.8	nmf	0.9	nmf	nmf	nmf	3.3%	134,366
SLB	Schlumberger Ltd	-51.3%	0.7%	39.10	89.99	Energy	22.3	1.7	nmf	18.6	6.4	573%	5.1%	54,154
COHU	Cohu Inc	-40.2%	0.7%	16.65	25.18	Semiconductors	10.5	1.9	2.9	11.4	8.6	2%	1.4%	678
PRU	Prudential Financial	-35.2%	0.9%	82.37	137.69	Insurance	6.9	nmf	0.8	nmf	nmf	nmf	4.4%	34,019
MU	Micron Technology	-47.1%	1.1%	34.20	76.90	Semiconductors	2.9	1.3	1.2	1.9	21.6	12%	0.0%	38,307
SYF	Synchrony Financial	-40.6%	1.2%	24.10	47.96	Diversified Financials	7.2	nmf	1.5	nmf	nmf	nmf	3.5%	17,321
LRCX	Lam Research	-42.4%	1.5%	135.37	231.44	Semiconductors	7.4	1.9	5.9	5.8	10.4	52%	3.3%	21,007
TSN	Tyson Foods	-33.4%	1.5%	55.30	85.35	Food, Beverage	9.0	0.5	nmf	7.9	8.7	nmf	2.7%	21,955
HAL	Halliburton	-49.9%	2.9%	29.00	54.48	Energy	14.4	1.1	4.1	8.9	5.5	168%	2.5%	25,405
BHGE	Baker Hughes a GE Co	-43.2%	3.1%	21.45	40.67	Energy	nmf	1.0	nmf	14.2	-4.8	nmf	3.4%	22,199
BASFY	BASF SE	-44.1%	3.2%	16.88	29.80	Materials	9.2	0.8	2.9	6.3	6.8	88%	3.9%	62,016
ING	ING Groep NV	-44.5%	3.3%	11.43	19.93	Banks	7.7	nmf	0.8	nmf	nmf	nmf	3.9%	44,481

As of 12.14.18. nmf=Not meaningful. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

Stock Updates

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 offers updates on four of our stocks that had news last week that was of sufficient importance to trigger a review of their respective Target Prices…

Illustrating the shoot-first-and-ask-questions-later mood of many investors these days, shares of blue-chip healthcare firm **Johnson & Johnson** (JNJ - $133.00) plunged 10% in price on Friday, following a story published by *Reuters* that accused the pharma giant of knowing for decades that cancer-causing asbestos lurked in trace amounts in its Baby Powder.

The article said that after reviewing company memos, internal reports and other confidential documents that were released as a part of a lawsuit by plaintiffs, *Reuters* believed J&J knew about the presence of small amounts of asbestos in its products from as early as 1971. The report also accused the company of commissioning and paying for studies conducted on its Baby Powder franchise and hiring a ghostwriter to redraft the article that presented the findings in a journal. JNJ has been battling in court lawsuits that have linked the product to ovarian cancer. Of the thousands of lawsuits, J&J has won some of the cases. However, in July of this year, J&J was ordered to pay (the company is appealing) some $4.7 billion in damages to 22 women who claimed its products caused them to develop ovarian cancer.

J&J wasted little time responding, "The *Reuters* article is one-sided, false, and inflammatory. Johnson & Johnson's baby powder is safe and asbestos-free. Studies of more than 100,000 men and women show that talc does not cause cancer or asbestos-related disease. Thousands of independent tests by regulators and the world's leading labs prove our baby powder has never contained asbestos. Johnson & Johnson will continue to defend the safety of our product. For the truth and facts about talc, please go to www.factsabouttalc.com."

The company's defense cited three areas, "1. The article ignores that thousands of tests by J&J, regulators, leading independent labs, and academic institutions have repeatedly shown that our talc does not contain asbestos. 2. The article ignores that J&J has cooperated fully and openly with the U.S. FDA and other global regulators, providing them with all the information they requested over decades. We have also made our cosmetic talc mines and processed talc available to regulators for testing. Regulators have tested both, and they have always found our talc to be asbestos-free. 3. The article ignores that J&J has always used the most advanced testing methods available to confirm that our cosmetic talc does not contain asbestos. Every method available to test J&J's talc for asbestos has been used by J&J, regulators, or independent experts, and all of these methods have all found that our cosmetic talc is asbestos-free."

J&J concluded, "Simply put, the *Reuters* story is an absurd conspiracy theory, in that it apparently has spanned over 40 years, orchestrated among generations of global regulators, the world's foremost scientists and universities, leading independent labs, and J&J employees themselves."

Certainly, we do not take the accusations lightly, especially as we know that most of our valued clients, subscribers and readers (as well as your TPS team) have been impacted by the devastation of cancer themselves or via family members or friends. Of course, we do have to look at the news from an investment standpoint, and while it is hard to put a value on potential victims, settlements or payouts, we believe that the pounding JNJ shares took on Friday was overdone, given that the talc issues have been long-playing. Of course, we understand that there could be more near-term weakness in the stock price as the publicity inspires more trips to the courthouse.

Despite the legal and reputational problems, we still believe that there are reasons to be optimistic about JNJ for the long-term. We continue to like the product mix and that the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power. We are also comforted by the firm's recent acquisitions (and expectations to continue doing strategic deals), which add further diversification. We continue to view the company as uniquely situated with unmatched depth and breadth in growing global health care markets, and we think that there is solid potential for a number of its compounds in clinical trials. That said, we have reduced our Target Price for JNJ to $149.

Despite posting what we saw as an exceptional quarter and a nice spike higher in its stock price earlier in the week, shares of **DSW Inc.** (DSW – $23.32) ended the five days down almost 4%. For fiscal Q3, DSW generated revenue of $833 million, compared to consensus analyst estimates of $791 million. Versus the same quarter in fiscal 2018, revenue was up more than 17%. Additionally, same store comparable sales jumped 7.3% during the quarter. Adjusted EPS came in at $0.70, which was more than 35% above analyst forecasts of $0.51.

DSW also raised its full year outlook for adjusted EPS to a range of $1.70 to $1.85, compared to its previous range of $1.60 to $1.75. The company said that the new guidance does not include charges

related to exit costs, restructuring or acquisition-related expenses or the impact of exited businesses. Furthermore, management noted the impact of the Camuto Group acquisition reflects the seasonality of the business and the timing of the integration process, which is expected to yield benefits starting in 2019.

CEO Roger Rawlins stated, "Our investments in merchandising, marketing and talent drove continued top line momentum, with comp growth across all businesses. Additionally, the nationwide roll-out of DSW kids drove the most successful back-to-school season in our history and our recently acquired Canadian business delivered the best results in the last five years…Our acquisition of Camuto Group brings powerful design and sourcing capabilities in-house and new streams of revenue from one of the leading lifestyle brands in fashion footwear. Integration efforts are on track, with supply chain and working capital improvements paving the way for a return to profitability. We have transformed our company to one of North America's largest footwear operators, with vertical product development expertise combined with a vast distribution network. This will accelerate market share growth by creating value for more customers and increasing our competitive differentiation."

We think the selloff in DSW shares not only last week, but over the past few months is well overdone, especially as Q3's financial release continues to show the company's operational improvements and momentum. We haven't forgotten that brick-and-mortar retail continues to face stiff operating headwinds from numerous directions, but we are still attracted to the company's strong balance sheet and improvements in store traffic and ticket size. With the recent pullback, the dividend yield has risen to 4.3%. Shares now trade at 13 times NTM adjusted earnings expectations and our Target Price has been raised to $36.

Shares of **Delta Air Lines** (DAL – $53.51) fell 4.5% last week after investors sold on what was viewed by some as a cut in guidance during the air carrier's Analyst Day, even as we saw the outlook as fairly upbeat. Delta said it anticipates double-digit earnings growth in 2019 with earnings per share projected between $6.00 and $7.00. The consensus estimate, according to Bloomberg, was about $6.50. Additionally, revenue is expected to grow 4% to 6% next year, versus expectations of approximately 5.8%.

"Delta is leading the way with our powerful brand and unmatched competitive advantages. In 2018, the Delta people have delivered another year of industry-leading financial results, sustained improvement in customer satisfaction and solid returns for our owners," said CEO Ed Bastian. "We have a bright future ahead and are confident in our plan for double-digit earnings growth in 2019 of $6 to $7 per share with both top-line growth and margin expansion."

"Delta has a great runway of opportunity as we continue to provide superior travel experiences and industry-leading reliability for our customers," said President Glen Hauenstein. "Our pipeline of commercial initiatives and brand momentum drive our expectations for 4% to 6% revenue growth in 2019"

We continue to be fans of Delta and believe the airline has a terrific management team headed by an industry veteran. We also like that the company has lowered its debt load, while the extended low-interest-rate environment allowed Delta to pick up less expensive new (A350, A321, 737NG, A330neo) and used (717, 757) planes. Delta continues to strive to woo business travelers by renovating lounges around the world, offering gate transfers via Porsche and serving top-notch food, in an effort to ensure

that the highest-margin travelers return. In addition, DAL trades for 8.3 times NTM earnings and yields 2.6%. Our Target Price now stands at $73.

Shares of home improvement chain **Lowe's Cos** (LOW – $93.36) bucked the general equity market trend last week and ended the 5-day period up 4.5%, following the company's Investor Day presentation. "We have substantially completed a detailed reassessment of our business and are diligently implementing process and technology improvements that are rooted in the fundamentals of retail and designed to position Lowe's to win in today's complex retail environment," commented CEO Marvin R. Ellison. "These transformational changes will take time but will enable Lowe's associates to better focus on serving customers and capture significant market opportunities. As we work to position the company for the future, we will remain true to our mission of delivering the right home improvement products, with the best service and value, across every channel and community we serve."

CFO David M. Denton added, "We anticipate that targeted initiatives designed to drive profitable sales, combined with an expense reduction culture, will allow us to generate significant cash flow from operations over the next three years. We are committed to investing in the business while also returning excess cash to shareholders, and strongly believe we can deliver substantial value to all stakeholders."

That last part in mind, LOW's Board of Directors authorized a new $10 billion common stock repurchase program, adding to the $4.5 billion remaining under the existing buyback plan. "While our top priority remains building a sustainable foundation for long-term success, with our strategic reassessment substantially complete, we are committed to delivering on our near-term financial objectives," Mr. Denton explained. "We are pleased with our performance quarter-to-date, and we expect to achieve our Business Outlook."

LOW said that it expects fiscal 2019 sales growth of at least 2%, same store comparable sales growth of 3% and an increase in operating margins of 235 to 250 basis points. Diluted earnings per share of $6.00 to $6.10 is management's current forecast. Those numbers sound pretty good to us, even as we know that media headlines have argued for a more challenging economy. We believe, as does LOW's management team, that the macroeconomic backdrop offers plenty of opportunity for the company, and we think that folks will continue to need repairs and upgrades (for existing homes) and materials and accessories (for new homes). LOW yields 2.1%. Our Target Price has been boosted to $125.