MARKET COMMENTARY MONDAY, DECEMBER 24, 2018

December 23, 2018

EXECUTIVE SUMMARY

Week in Review – Worst Five Days Since 2011
Economic Perspective – Big Difference Between 2011 and 2018
Washington – Headwinds Blowing, but Government Shutdowns are Usually Not a Long-Term Problem for Equities
Econ Outlook – Moderate Growth Likely in 2019
FOMC Meeting – Economy is Strong, But Fewer Rate Hikes Likely
Market of Stocks – Majority are Off Much More than 20% From 52-Week Highs
Buffett Wisdom – Bought BAC in 2011 Because Stock Price Had Gone Down a Lot
More Tax-Loss Victims – 25 Undervalued Stocks Crushed in Price in December
Company News – Updates on WBA, CCL, MU, ORCL, JBL & FDX

Market Review

All of us at *The Prudent Speculator* would like to with our readers a Merry Christmas and Happy Holidays!

Alas, Santa certainly did not come early this year as U.S. stocks suffered their worst weekly declines since 2008 for the Dow Jones Industrial Average, which tumbled 6.87% on a total return basis, and the Nasdaq Composite, which plummeted 8.34%. Although Value outperformed Growth, with the Russell 3000 Value index down 6.48%, compared to a 7.93% wallop for the Russell 3000 Growth index, it was an awful market week all the way around.

No doubt, harkening back to the Financial Crisis 10 year ago likely captures more eyeballs in the sensationalistic media world in which we reside, but we would argue that a much better parallel for last week might be drawn to 2011. After all, the S&P 500's latest skid of 7.03% was the largest five-day plunge since August 2011,...

THE PRUDENT SPECULATOR
Outsized Weekly S&P Moves

The week ended 12.21.18 was terrible, but since 1927, there have been 50 times when the S&P 500 skidded 7.05%+ 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		1	2	1	0	0	0	0	1	0	5
Years Ending in 1		4	0	0	0	0	0	0	1	1	6
Years Ending in 2		9	0	0	0	0	0	0	1	0	10
Years Ending in 3		3	0	0	0	0	0	0	0	0	3
Years Ending in 4		2	0	0	0	3	0	0	0	0	5
Years Ending in 5		0	0	0	0	0	0	0	0	0	0
Years Ending in 6		0	0	0	0	0	1	0	0	0	1
Years Ending in 7		6	0	0	0	0	2	0	0	0	8
Years Ending in 8	1	2	0	0	0	0	0	0	3	1	7
Years Ending in 9	4	1	0	0	0	0	0	0	0		5
Totals	5	28	2	1	0	3	3	0	6	2	50

From 12.31.27 though 12.21.18. Weeks of index price return drops of more than 7.05%. 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		0	0	0	0	0	0	0	1	0	1
Years Ending in 1		2	0	0	0	0	0	0	1	1	4
Years Ending in 2		9	0	0	0	0	2	0	0	0	11
Years Ending in 3		9	0	0	0	0	0	0	1	0	10
Years Ending in 4		2	0	0	0	2	1	0	0	0	5
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		0	0	0	0	0	0	0	0	0	0
Years Ending in 8	0	4	1	0	0	0	0	1	2	0	8
Years Ending in 9	2	1	0	0	0	0	0	0	1		4
Totals	2	27	1	0	0	2	3	1	6	1	43

From 12.31.27 though 12.21.18. Weeks of index price return gains of more than 7.05%. SOURCE: Al Frank using data from Bloomberg

…with that time-span a tumultuous period to say the least that makes today's incredible equity volatility look almost hum-drum. Memories fade, to be sure, but the main catalysts for the 2011 Bear Market were the European sovereign debt crisis, the downgrade of the U.S. credit rating and worries about a slowing economy.

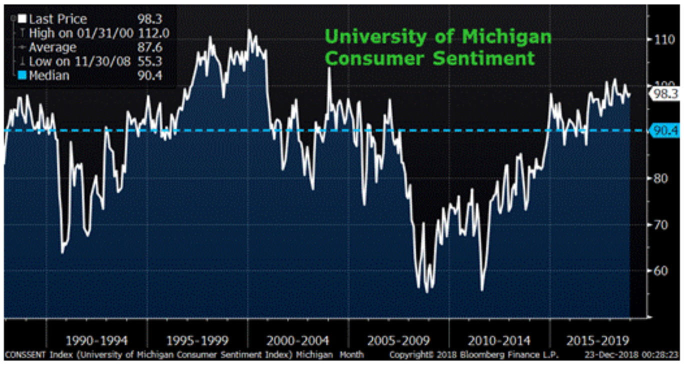
2011 Bear Market

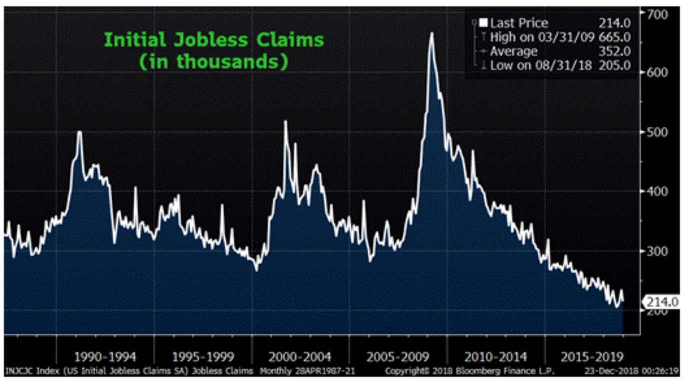
Start	End	Perf	Instrument	Start	End	Perf	Instrument
4/29/2011	**10/3/2011**	**-26.6%**	**Russell 3000 Average Stock**	**4/29/2011**	**10/3/2011**	**-28.8%**	**NASDAQ Composite Average Stock**
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway	7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	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

On that last point, given that fears of a recession on the horizon are seemingly front and center today, it is interesting that back in 2011, we wrote, "Here at home, first-time claims for unemployment insurance rose to 417,000 for the period ended Aug. 20 and second quarter U.S. GDP growth was revised down to 1.0% from 1.3%, putting growth for the first half of the year at just 0.7%. To be sure, there were a few silver linings as the GDP report showed that corporate profits climbed by 3% in the second quarter, improving on the 1% increase seen in the Q1."

Contrast those numbers with the robust economic statistics we presently are seeing,...

THE PRUDENT SPECULATOR
Reasons for Economic Optimism





Consumer sentiment, per the Univ. of Michigan, remained very upbeat in December at a stronger-than-expected level of 98.3. The current conditions component was very strong, even as the expectations component dipped during the month. Of course, first-time filings for jobless benefits came in at 214,000 in the latest week, a figure that remains just above the lowest levels recorded in our monthly data series dating back to 1987.

...and the big difference in GDP expansion,...

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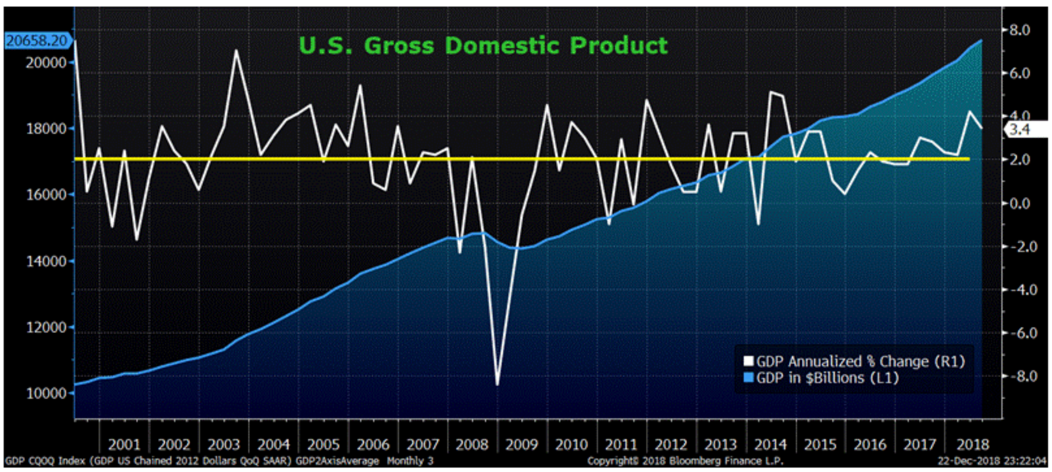
THE PRUDENT SPECULATOR
U.S. Economy is Growing

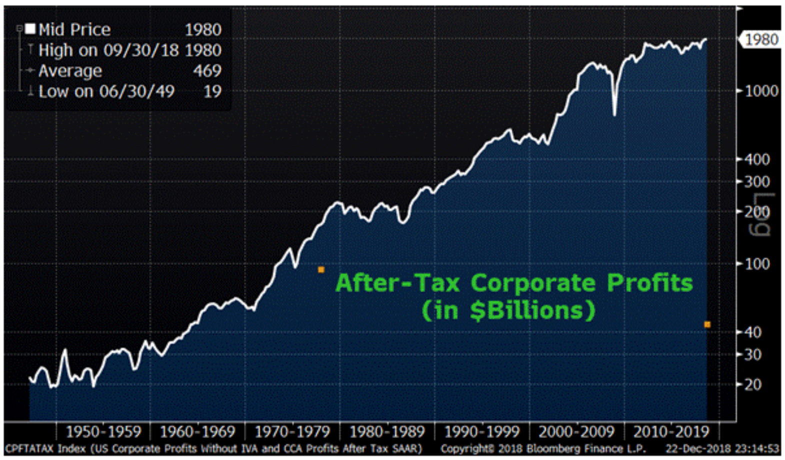
Uncle Sam calculated Q3 ‘18 GDP growth at a robust 3.4%, Yes this was down from the 4.2% of Q2 ’18, while many are worried that growth will slow markedly as we move forward, with more than a few thinking a recession is imminent, as ongoing trade skirmishes are not helping, but even a modest downturn would still see the economy expand on a nominal basis, with corporate profits likely remaining healthy.



…not to mention the tremendous growth in corporate profits that is expected to carry over into 2019…

THE PRUDENT SPECULATOR
Plenty of Black Ink for Corporate America

After-tax corporate profits rose a year-on-year 6.1% in the third-quarter, up 0.2% from the initial estimate. The annualized rate was $1.980 trillion without inventory valuation and capital consumption adjustments. And, the outlook for continued earnings growth remains favorable.



S&P 500 Earnings Per Share

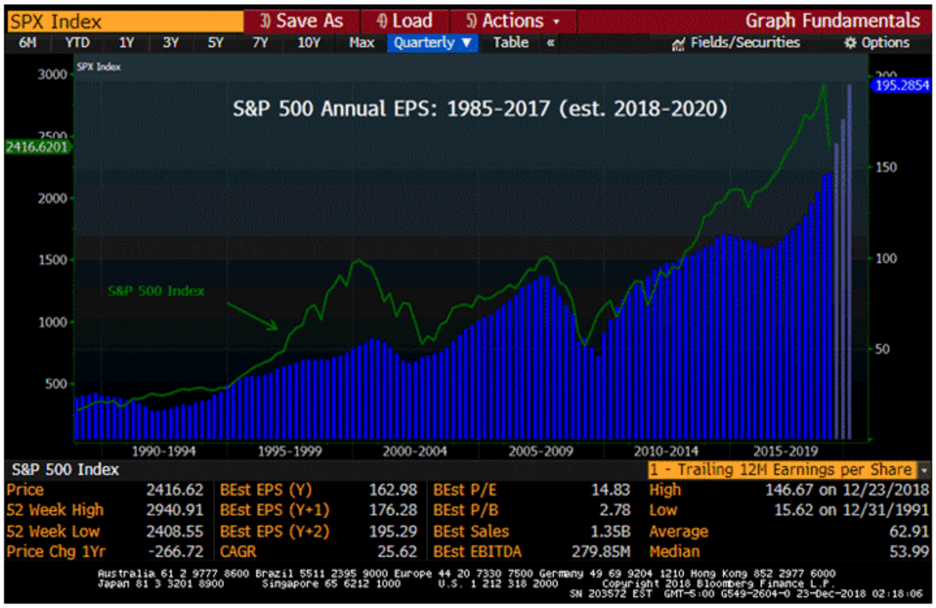
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2019	$45.64	$172.76
9/30/2019	$44.54	$167.72
6/30/2019	$42.70	$164.56
3/31/2019	$39.88	$160.51
12/31/2018	$40.60	$157.17
9/30/2018	$41.38	$150.42
ACTUAL		
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
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 12.20.18

…and 2020.

THE PRUDENT SPECULATOR
Stock Prices Often Follow Earnings

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



No doubt, the tariff battle with China, the constant drama in the White House and the partial shutdown of the U.S. government are not helping matters today,...

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Washington Closed for Business

With funding for a wall along the U.S.-Mexico border the main sticking point, the U.S. government partially shut down on Dec. 22, with no compromise reached over the weekend. Incredibly, a Washington closure over market-trading days has occurred 19 times since 1976, but equities generally have taken these events in stride.

U.S. Government Shutdown Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
9/30/1976	10/11/1976	105.24	101.64	-3%	-7%	3%	19%	2278%
9/30/1977	10/13/1977	96.53	93.46	-3%	12%	41%	46%	2486%
10/31/1977	11/9/1977	92.34	92.98	1%	2%	39%	54%	2499%
11/30/1977	12/9/1977	94.83	93.65	-1%	3%	39%	49%	2480%
9/30/1978	10/18/1978	102.54	100.49	-2%	3%	19%	67%	2305%
9/30/1979	10/12/1979	109.32	104.49	-4%	25%	29%	57%	2213%
11/20/1981	11/23/1981	121.71	121.60	0%	9%	37%	102%	1887%
9/30/1982	10/2/1982	120.42	121.97	1%	36%	51%	169%	1881%
12/17/1982	12/21/1982	137.49	138.61	1%	18%	52%	80%	1643%
11/10/1983	11/14/1983	164.41	166.58	1%	0%	47%	61%	1351%
9/30/1984	10/3/1984	166.10	162.44	-2%	13%	102%	118%	1388%
10/3/1984	10/5/1984	162.44	162.68	0%	13%	102%	119%	1386%
10/16/1986	10/18/1986	239.53	238.84	0%	18%	43%	64%	912%
12/18/1987	12/20/1987	249.16	249.16	0%	11%	32%	77%	870%
10/5/1990	10/9/1990	311.50	305.10	-2%	24%	51%	90%	692%
11/13/1995	11/19/1995	592.30	600.07	1%	24%	92%	128%	303%
12/15/1995	1/6/1996	616.34	616.71	0%	21%	106%	111%	292%
9/30/2013	10/17/2013	1,681.55	1,733.15	3%	9%	23%	62%	39%
1/20/2018	1/22/2018	2,810.30	2,832.97	1%				-15%
Price Changes Only - Does Not Include Dividends			Averages:	0%	13%	50%	82%	1415%

Source: Al Frank using data from Bloomberg and https://www.washingtonpost.com/news/wonk/wp/2013/09/25/here-is-every-previous-government-shutdown-why-they-happened-and-how-they-ended/?utm_term=.ab877913da76

...but despite the Washington headwinds, modest economic growth, and not recession, is still the likely expectation next year, based on the index of Leading Economic Indicators...

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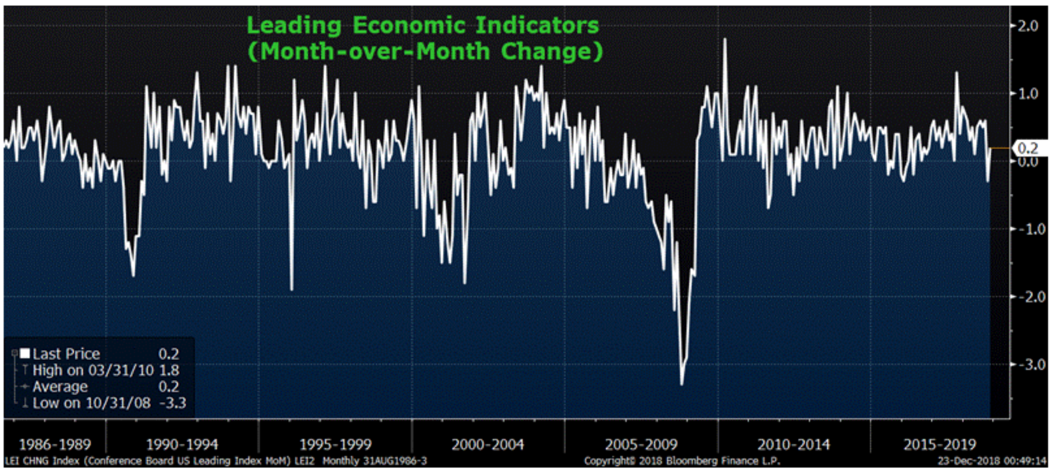
THE PRUDENT SPECULATOR
No Signs of an Imminent Recession

The forward-looking index of Leading Economic Indicators rose 0.2% in December, with the Conference Board stating, “Despite the recent volatility in stock prices, the strengths among the leading indicators have been widespread. Solid GDP growth at about 2.8% should continue in early 2019, but the LEI suggests the economy is likely to moderate further in the second half of 2019.”



…and last week’s projections by the Federal Reserve.

No Recession in the Fed Forecast

The Fed raised its longer-run projection for GDP growth to 1.9%, though its outlook for 2019 growth (yes, growth!) decreased to 2.3%, down from 2.5%. The long-run forecast for the Federal Funds rate fell to 2.8%.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, December 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	3.0	2.3	2.0	1.8	1.9	3.0–3.1	2.3–2.5	1.8–2.0	1.5–2.0	1.8–2.0	3.0–3.1	2.0–2.7	1.5–2.2	1.4–2.1	1.7–2.2
September projection	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
Unemployment rate	3.7	3.5	3.6	3.8	4.4	3.7	3.5–3.7	3.5–3.8	3.6–3.9	4.2–4.5	3.7	3.4–4.0	3.4–4.3	3.4–4.2	4.0–4.6
September projection	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
PCE inflation	1.9	1.9	2.1	2.1	2.0	1.8–1.9	1.8–2.1	2.0–2.1	2.0–2.1	2.0	1.8–1.9	1.8–2.2	2.0–2.2	2.0–2.3	2.0
September projection	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
Core PCE inflation[4]	1.9	2.0	2.0	2.0		1.8–1.9	2.0–2.1	2.0–2.1	2.0–2.1		1.8–1.9	1.9–2.2	2.0–2.2	2.0–2.3	
September projection	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	
Memo: Projected appropriate policy path															
Federal funds rate	2.4	2.9	3.1	3.1	2.8	2.4	2.6–3.1	2.9–3.4	2.6–3.1	2.5–3.0	2.1–2.4	2.4–3.1	2.4–3.6	2.4–3.6	2.5–3.5
September projection	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

Source: Federal Reserve, December 19, 2018

To be sure, we realize that the Fed's decision to hike interest rates last week, along with a lack of enough "dovishness" in the commentary from Jerome Powell & Co. caused plenty of market consternation, but it is difficult to find fault with the relatively upbeat assessment of the economy:

Over the past year, the economy has been growing at a strong pace, the unemployment rate has been near record lows, and inflation has been low and stable. All of those things remain true today. Since the September meeting of the FOMC, however, some crosscurrents have emerged. I'll explain how my colleagues and I are incorporating those crosscurrents into our judgments about the outlook and the appropriate course of policy.

Since September, the U.S. economy has continued to perform well, roughly in line with our expectations. The economy has been adding jobs at a pace that will continue bringing the unemployment rate down over time. Wages have moved up for workers across a wide range of occupations, a welcome development. Inflation has remained low and stable, and is ending the year a bit more subdued than most had expected. Although some American families and communities continue to struggle and some longer-term economic problems remain, the strong economy is benefiting many Americans.

Despite this robust economic backdrop and our expectation for healthy growth, we have seen developments that may signal some softening relative to what we were expecting a few months ago. Growth in other economies around the world has moderated somewhat over the course of 2018, albeit to still-solid levels. At the same time, financial market volatility has increased over the past couple of months, and overall financial conditions have tightened–that is, they have become less supportive of growth.

In our view, these developments have not fundamentally altered the outlook. Most FOMC participants have, instead, modestly lowered their growth and inflation forecasts for next year. The projections of Committee participants released today show growth continuing at healthy levels, the unemployment rate falling a bit further next year, and inflation remaining near 2 percent. The projections also show a modestly lower path for the federal funds rate, which should support the economy and keep us near our goals. As the economy struggled to recover from the financial crisis and the subsequent recession, the Committee held our policy rate near zero for seven years to give the economy the best chance to recover. And the economy did recover steadily, if slowly at times. Three years ago, the Committee came to the view that the best way to achieve our mandate was to gradually move interest rates back to levels that are more normal in a healthy economy. Today, we raised our target range for short-term interest rates by another quarter of a percentage point. As I've mentioned, most of my colleagues expect the economy to continue to perform well in the coming year. Many FOMC participants had expected that economic conditions would likely call for about three more rate increases in 2019. We have brought that down a bit and now think it is more likely that the economy will grow in a way that will call for two interest rate increases over the course of next year.

We always emphasize that our policy decisions are not on a preset course and will change if incoming data materially change the outlook. And, given recent developments, the statement notes that we "will continue to monitor global economic and financial developments and assess their implications for the economic outlook.

THE PRUDENT SPECULATOR
FOMC Fed Funds Rate Targets: Dec 2018

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Given that so many had feared rate hikes, it is stunning that the plunge in equities has coincided with a reduction in the Federal Reserve's (and the market's) expectations for where the Fed Funds rate will be in 2019.

FOMC Participants' Fed Funds Rate Target Level
Number with each projection

Midpoint of Target Range	2018	2019	2020	2021	Longer run
4.500					
4.375					
4.250					
4.125					
4.000					
3.875					
3.750					
3.625			2	2	
3.500					1
3.375			3	1	
3.250					1
3.125		6	4	6	
3.000					5
2.875		5	6	4	
2.750					5
2.625		4	1	3	
2.500					4
2.375	15	2	1	1	
2.250					
2.125	2				

Source: Federal Reserve, December 19, 2018

99) Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.40
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 12/21/2018 — Based on rate 2.25-2.50

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
01/30/2019	0.0%	2.1%	0.0%	2.1%	97.9%	0.0%	0.0%	0.0%	0.0%	2.40
03/20/2019	16.1%	1.7%	0.0%	1.7%	82.2%	16.1%	0.0%	0.0%	0.0%	2.44
05/01/2019	22.1%	1.6%	0.0%	1.6%	76.3%	20.9%	1.2%	0.0%	0.0%	2.46
06/19/2019	28.0%	1.5%	0.0%	1.5%	70.5%	25.2%	2.7%	0.1%	0.0%	2.48
07/31/2019	37.2%	1.3%	0.0%	1.3%	61.6%	31.1%	5.6%	0.4%	0.0%	2.51
09/18/2019	39.1%	1.2%	0.0%	1.2%	59.7%	32.0%	6.4%	0.6%	0.0%	2.52
10/30/2019	40.8%	1.2%	0.0%	1.2%	58.0%	32.8%	7.2%	0.8%	0.0%	2.52
12/11/2019	38.6%	5.1%	0.1%	5.0%	56.3%	31.1%	6.7%	0.7%	0.0%	2.51
01/29/2020	34.5%	12.6%	0.7%	11.8%	53.0%	27.9%	5.9%	0.6%	0.0%	2.47

99) Export Data — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.18
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 09/20/2018 — Based on rate 1.75-2.00

Meeting	Hike Prob	Cut Prob	1.75-2	2-2.25	2.25-2.5	2.5-2.75	2.75-3	3-3.25	3.25-3.5	Fwd Rate
09/26/2018	100.0%	0.0%	0.0%	97.9%	2.1%	0.0%	0.0%	0.0%	0.0%	2.17
11/08/2018	100.0%	0.0%	0.0%	95.2%	4.7%	0.1%	0.0%	0.0%	0.0%	2.18
12/19/2018	100.0%	0.0%	0.0%	23.2%	73.2%	3.6%	0.0%	0.0%	0.0%	2.37
01/30/2019	100.0%	0.0%	0.0%	21.8%	70.1%	7.9%	0.3%	0.0%	0.0%	2.39
03/20/2019	100.0%	0.0%	0.0%	8.3%	40.1%	46.4%	5.0%	0.2%	0.0%	2.55
05/01/2019	100.0%	0.0%	0.0%	7.2%	36.2%	45.7%	10.1%	0.8%	0.0%	2.58
06/19/2019	100.0%	0.0%	0.0%	3.8%	22.3%	41.1%	27.2%	5.3%	0.4%	2.70
07/31/2019	100.0%	0.0%	0.0%	3.4%	20.6%	39.4%	28.4%	7.2%	0.8%	2.72
09/18/2019	100.0%	0.0%	0.0%	2.4%	15.5%	33.8%	31.7%	13.6%	2.7%	2.80

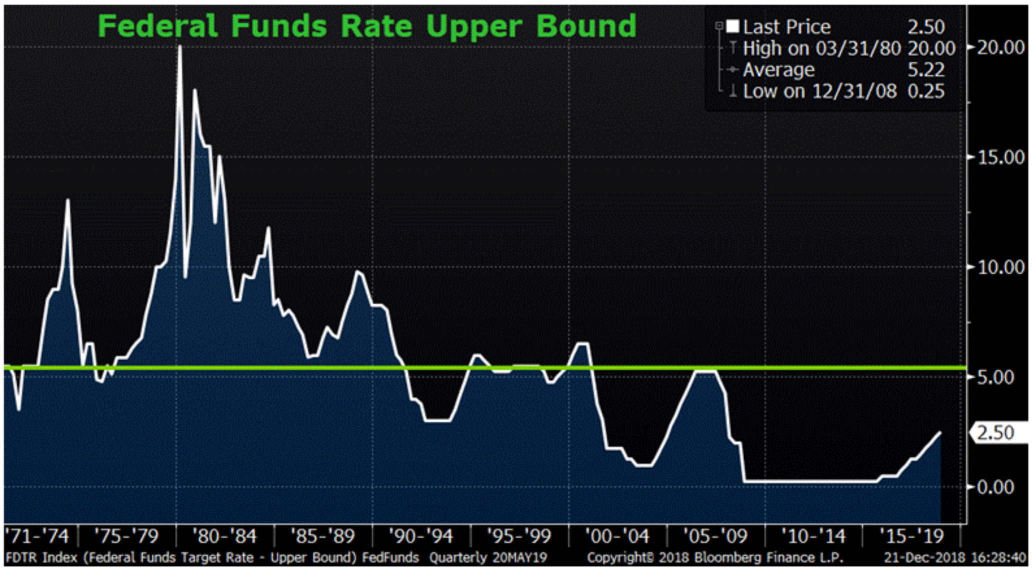
Source: Bloomberg

Evidently many investors wanted Chair Powell to express more concern about the economy, but John Williams, Federal Reserve Bank of New York President, provided what should have been soothing words on Friday to those concerned that the Fed was on a preset course to continue to hike interest rates, no matter what, even as folks should understand that the Fed Funds rate is still very low by historical standards.

AFAM CAPITAL

THE PRUDENT SPECULATOR
Fed is Still Accomodative

It is fascinating that folks seem concerned that Jerome Powell & Co. were not "dovish" enough in their December 2018 FOMC Statement, given that their long-run target for the Fed Funds rate is now 2.8%, well below the long-term 5.22% average.



Mr. Williams told *CNBC*, "The really important message is the economy is strong. That's why we are seeing strength going into the new year. We expect a healthy economy in 2019. That is our baseline expectation. However, we are listening very carefully to what is happening in the markets…We did not make a decision to change the balance sheet normalization right now, but as I said we're going into the new year with eyes wide open."

No doubt, we are well aware that anything can happen in the economy and the equity markets, so we know that our "nerves of steel" will continue to be tested (the futures Sunday evening were gyrating between negative and positive territory) as we navigate heightened volatility,…

AFAM CAPITAL

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%	-30.2%	222	37	2.4	9/20/2018	12/21/2018
-15.0%	-28.2%	192	43	2.1	9/20/2018	12/21/2018
-12.5%	-22.6%	140	70	1.3	9/20/2018	12/21/2018
-10.0%	-19.2%	102	104	0.9	9/20/2018	12/21/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/21/2018
-5.0%	-10.9%	37	297	0.4	12/3/2018	12/21/2018

From 02.20.28 through 12.21.18. 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

…but we believe that the Bear Market presently being suffered by the majority of stocks…

THE PRUDENT SPECULATOR
A (Bear) Market of Stocks

While the Nasdaq Composite index is "officially" in a Bear Market (off at least 20% from its highs), individual stocks have suffered far larger damage relative to their own 52-week highs. Indeed, the average stock in the S&P 500 and Russell 3000 is off 27.2% and 36.2%, respectively.

S&P 500 Members Below 52-Week High

	-40%	-35%	-30%	-25%	-20%	-15%	-10%	-5%
# Below	98	138	207	270	343	401	442	494
Total	506	506	506	506	506	506	506	506
% Below	19.4%	27.3%	40.9%	53.4%	67.8%	79.2%	87.4%	97.6%

Source: Bloomberg. As of 12.21.18

Russell 3000 Members Below 52-Week High

	-40%	-35%	-30%	-25%	-20%	-15%	-10%	-5%
# Below	1124	1409	1753	2126	2425	2676	2833	2960
Total	3013	3013	3013	3013	3013	3013	3013	3013
% Below	37.3%	46.8%	58.2%	70.6%	80.5%	88.8%	94.0%	98.2%

Source: Bloomberg. As of 12.21.18

...already discounts a moderate recession that is unlikely to occur, while we continue to think that the valuations on our portfolios are very compelling.

THE PRUDENT SPECULATOR
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	11.9	10.3	1.0	1.6	3.3
Select Value	12.0	10.4	1.0	1.6	2.8
Select Dividend	12.0	10.5	0.9	1.7	3.7
Select Focused Dividend	11.0	9.9	0.8	1.9	3.9
Select Focused Value	12.1	10.8	1.1	2.1	3.2
Select SMID Dividend	11.7	10.3	0.5	1.3	3.4
Russell 3000	17.5	15.3	1.7	2.7	2.2
Russell 3000 Growth	21.9	18.6	2.4	5.8	1.6
Russell 3000 Value	14.7	13.1	1.3	1.8	2.9
Russell 1000	16.8	15.0	1.8	2.8	2.3
Russell 1000 Growth	20.2	17.9	2.5	6.2	1.6
Russell 1000 Value	14.5	13.0	1.4	1.8	2.9
S&P 500 Index	16.5	14.8	1.8	2.9	2.2
S&P 500 Growth Index	19.6	17.2	3.0	5.3	1.6
S&P 500 Value Index	13.9	12.7	1.3	1.9	3.0
S&P 500 Pure Value Index	11.0	10.0	0.5	1.2	3.2

As of 12.22.18. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

And, unless things really get ugly economically speaking, and stay that way for a while, we think that those able to keep the faith and stay committed to their long-term investment plans will look back at this period with fondness, much like they did the last time the S&P 500 fell 7% in a week,...

THE PRUDENT SPECULATOR
7 Years Since the Last 7% S&P Weekly Dip

Stocks, as measured by the S&P 500 just suffered their worst weekly drubbing since August 2011. Of course, between then and now, the benchmark has more than doubled in price, despite last week's carnage.

…while we are reminded that Warren Buffett was investing in **Bank of America** (BAC – $23.37) back in August 2011 when the stock was trading in the $7 range. Asked why he would be buying during such troubling times, the Oracle of Omaha stated, "Because the stock price has gone down a lot!"

And speaking of stocks that have gone down a lot, we know that there has been plenty of tax-loss selling taking place of late, so there has been extra pressure on many already undervalued, in our view, names. No guarantee that January will see a reversal, but the following 25 stocks are the biggest *TPS* losers this month.

THE PRUDENT SPECULATOR
Tax-Loss Holiday Shopping List

DECEMBER CARNAGE

Symbol	Common Stock	Dec % Return	12.21.18 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
OII	Oceaneering Int'l	-32.8	11.29	25.04	Energy	nmf	0.6	1.1	9.6	-8.0	79%	0.0%	1,112
FDX	FedEx Corp	-30.8	158.00	324.72	Transportation	9.2	0.6	3.3	7.1	-0.8	132%	1.6%	41,245
BHF	Brighthouse Financial	-26.2	29.70	77.30	Insurance	2.1	nmf	0.3	nmf	nmf	nmf	0.0%	3,522
FLR	Fluor Corp	-25.8	30.23	56.74	Capital Goods	11.5	0.2	1.7	5.7	-4.1	67%	2.8%	4,252
COHU	Cohu Inc	-25.2	14.67	25.18	Semiconductors	9.3	1.6	2.6	9.6	9.8	2%	1.6%	597
C	Citigroup	-22.5	50.24	103.46	Banks	8.1	nmf	0.8	nmf	nmf	nmf	3.6%	122,693
KEY	KeyCorp	-22.0	14.30	26.98	Banks	8.7	nmf	1.3	nmf	nmf	nmf	4.8%	14,794
WRK	Westrock	-21.6	36.94	77.65	Materials	9.1	0.6	3.4	6.0	15.0	205%	4.9%	9,446
MU	Micron Technology	-21.4	30.32	73.14	Semiconductors	2.4	1.1	1.1	1.5	11.6	12%	0.0%	33,990
ONB	Old National Bancorp	-21.3	14.74	24.11	Banks	12.4	nmf	1.7	nmf	nmf	nmf	3.5%	2,246
NOV	National Oilwell Varco	-21.3	25.24	44.01	Energy	nmf	1.2	2.2	15.8	2.2	60%	0.8%	9,676
MAN	ManpowerGroup	-21.0	64.12	138.23	Commercial/Pro Srvcs	7.4	0.2	3.4	4.9	8.6	90%	3.2%	3,965
HFC	HollyFrontier	-21.0	49.36	82.95	Energy	10.1	0.5	2.6	4.7	11.6	73%	2.7%	8,553
CCL	Carnival Corp	-20.6	47.86	83.09	Consumer Services	11.2	1.8	1.6	8.0	5.3	39%	4.2%	33,252
MOS	Mosaic Co	-20.6	28.56	49.98	Materials	16.9	1.2	1.3	9.1	7.3	52%	0.4%	11,009
CVS	CVS Health	-20.6	63.70	127.13	Health Care Equip/Srvcs	9.3	0.4	nmf	12.4	6.6	nmf	3.1%	82,370
WBA	Walgreens Boots	-20.6	67.26	114.94	Food & Staples Retailing	10.8	0.5	nmf	9.9	9.5	nmf	2.6%	63,456
SLB	Schlumberger Ltd	-19.9	35.70	89.99	Energy	20.4	1.5	20.0	17.3	7.0	573%	5.6%	49,445
COF	Capital One Financial	-19.3	72.39	124.45	Diversified Financials	6.8	nmf	1.1	nmf	nmf	nmf	2.2%	34,288
ALK	Alaska Air Group	-19.0	59.34	95.32	Transportation	13.1	0.9	4.3	6.9	6.0	98%	2.2%	7,314
CAH	Cardinal Health	-18.9	44.44	81.68	Health Care Equip/Srvcs	8.5	0.1	nmf	11.7	11.4	nmf	4.3%	13,241
TNP	Tsakos Energy Nav	-18.7	2.74	5.80	Energy	nmf	0.5	0.2	10.1	nmf	102%	7.3%	239
FITB	Fifth Third Bancorp	-18.6	22.73	38.97	Banks	9.6	nmf	1.2	nmf	nmf	nmf	3.9%	14,902
DAL	Delta Air Lines	-18.5	49.45	73.01	Transportation	9.4	0.8	nmf	5.4	7.5	nmf	2.8%	33,904
LRCX	Lam Research	-18.4	127.16	227.33	Semiconductors	6.9	1.8	5.6	5.4	11.1	52%	3.5%	19,733

As of 12.21.18. 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

Sadly, with the rise of passive exchanged traded fund investing, many have lost sight of the fact that they actually are investing in companies and not just ticker symbols. As one of my favorite authors, Jason Zweig, wrote in his book on neuroeconomics, *Your Money and Your Brain*: “Stocks have prices; business have values. In the short run, a stock’s price will change whenever someone wants to buy or sell it and whenever something happens that seems like news…In the long run a stock has no life of its own; it is only an exchangeable piece of an underlying business. If that business becomes more profitable over the long term, it will become more valuable, and the price of its stock will go up in turn. It’s not uncommon for a stock’s price to change as often as a thousand times in a single trading day, but in the world of real commerce, the value of a business hardly changes at all on any given day. Business values change over time, not all the time. Stocks are like weather, altering almost continuously and without warning; businesses are like climate, changing more gradually and predictably. In the short run, it’s the weather that gets our notice and appears to determine the environment, but in the long run it’s the climate that really counts.”

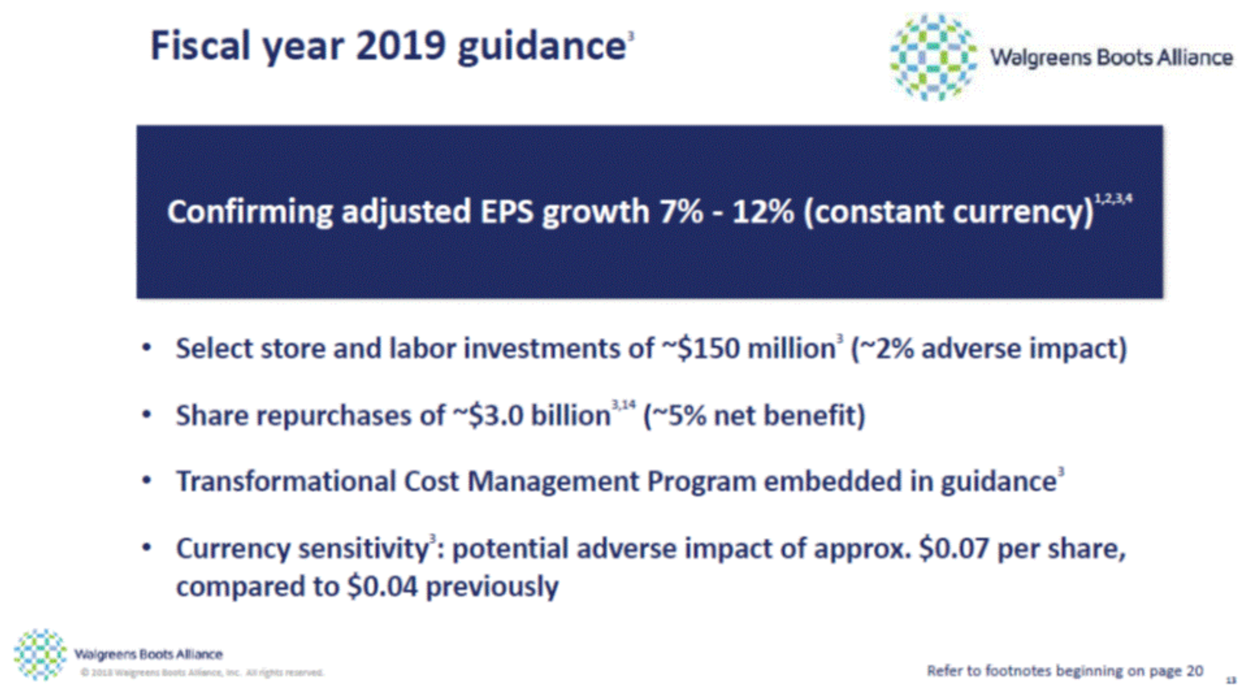
That in mind, we find that in times of market turmoil it helps to stay grounded by focusing on the fundamentals of the companies in which we are invested. As such, and keeping in mind that all stocks are rated as "Buy" until such time as they are a "Sell," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/, Jason Clark and Chris Quigley offer updates on six of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices…

Walgreens Boots Alliance (WBA – $67.26) announced last week that it earned $1.46 per share, beating the analyst consensus estimate of $1.43, in fiscal Q1 2019. The pharmacy giant had revenue totaling $33.8 billion in the quarter, trailing the estimate of $33.9 billion. Somehow, WBA shares for the week were beaten down, falling more than 14.5%.

Overall, WBA's revenue increased 9.9%, boosted by the Rite-Aid store acquisition in March 2018. While gross margin pressures persisted, the bottom-line was aided by U.S. tax reform and share repurchases (thus year-over-year earnings growth reached 14% during the period). Given the continuation of the benefits from tax reform and $3 billion of expected share repurchases, we don't see the guided 7% to 12% adjusted EPS for the full fiscal year as unreasonable. Additionally, a new cost-cutting program, with projected savings of more than $1 billion annually expected in three years, should be able to help counter the persistent headwinds the firm faces.

WBA CEO Stefano Pessina commented, "We are pleased to have delivered double digit percentage growth in earnings per share in the first quarter, including solid results in the U.S. We continue to focus on and invest in transforming our business. We have made good progress on partnerships, including advancing our collaborations with Kroger, FedEx and Humana and, earlier this week, we announced an initiative with Verily to further expand our health care offering. Today we are reaffirming our fiscal 2019 guidance and announcing the launch of a new transformational cost management program, which is targeting annual cost savings of more than $1 billion by the end of the third year, to better position ourselves to meet our long term targets."

We are pleased that the Rite Aid store integration is paying dividends, as we continue think that the added footprint will help the company reach a broader section of U.S. consumers and will give WBA the opportunity to take the battle to its competitors. We continue to like the firm's European footprint via its Boots stores in the United Kingdom, Norway, Ireland, the Netherlands and Lithuania, and we note that Boots also has operations in Mexico, Chile and Thailand. Additionally, some of their new partnerships could prove to be quite additive.



Long-term, we believe WBA will benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations. Analysts have ratcheted up EPS estimates, estimating that the figure will climb from $5.98 in 2018 to $7.66 in fiscal 2021. WBA also generates solid free cash flow and we expect the dividend payout (the yield is currently 2.6%) to continue to rise. Our Target Price for WBA shares is currently $115.

Shares of **Carnival Corp.** (CCL – $47.86) sank more than 15% last week, even as the cruise line operator reported quarterly results that came in above estimates on both the top- and bottom-line. For fiscal Q4, Carnival posted adjusted EPS of $0.70, which slightly topped consensus expectations of $0.69. Revenue for the period of $4.46 billion came in above forecasts calling for $4.44 billion. That said, investors were extremely disappointed by the company's net yield outlook for 2019 of 1%, below consensus of 2%, despite its EPS outlook of $4.50 to $4.80 being generally in line with investor average forecasts of $4.70.

We note that we believe that CCL is again being conservative in their forecasts, as this has shown up in net yield predictions the past three years. Why does this matter? There is potential upside to CCL's current outlook if demand stays steady, however if demand slows, we think the EPS outlook has seemingly less risk than some other cruise companies, and recent history suggests they are being intentially conservative in their forecasts. It is also worth noting that on the earnings call, management kept the focus on another year of double-digit earnings growth and higher ROIC, which seems pretty good to us.

Carnival CEO Arnold Donald commented, "We delivered strong fourth quarter earnings and record adjusted fourth quarter earnings to top off a record breaking year. In 2018, we grew net cruise revenue (constant currency) over 5%, achieving the highest revenue yields (constant currency) in our company's history, and producing double-digit adjusted earnings growth despite a significant drag from fuel and currency. More importantly, we achieved double-digit return on invested capital in line with the target we established five years ago. I thank our 120,000 team members around the globe who encountered multiple headwinds and still delivered for our shareholders a more than doubling of return on invested capital in just five years, as well as our valued travel agent partners whose strong support enabled these record results."

The company said cumulative advance bookings for full year 2019 are considerably ahead of the prior year at prices that are in line with the prior year. Pricing on bookings taken since September has been running in line on a comparable basis to the prior year while booking volumes are significantly higher. As a result, even with higher capacity, there is less inventory remaining for sale than at the same time last year.

Mr. Donald added, "Based on continued strength in underlying fundamentals, we are poised to deliver another year of strong revenue and earnings growth, with booking volumes running significantly ahead of our higher capacity growth and net revenue yields expected to exceed last year's record levels (constant currency). We remain committed to driving demand in excess of measured capacity growth to continue the momentum into 2019 and beyond. Based on the foundation we have put in place we are well positioned to continue to drive shareholder returns as we execute along a path toward growing earnings and return on invested capital over time. We remain committed to the continued distribution of cash to shareholders through increasing dividends, currently totaling $1.4 billion annually, and opportunistic share repurchases, which have reached $4.6 billion since late 2015."

We think the sell-off last week and this year has been overdone. CCL shares are trading at just slightly above 10 times NTM adjusted earnings expectations, levels that haven't been seen since the Financial Crisis. While near-term headwinds will continue to blow, we maintain our long-term optimism on CCL and the overall cruise industry space, given favorable demographic trends and the fact that there are still meaningful growth opportunities in emerging economies, which are encouraging for global revenue diversification and the ability to rapidly reach a new customer base. CCL shares now sport a 4.2% dividend yield. Our Target Price has been adjusted to $82.

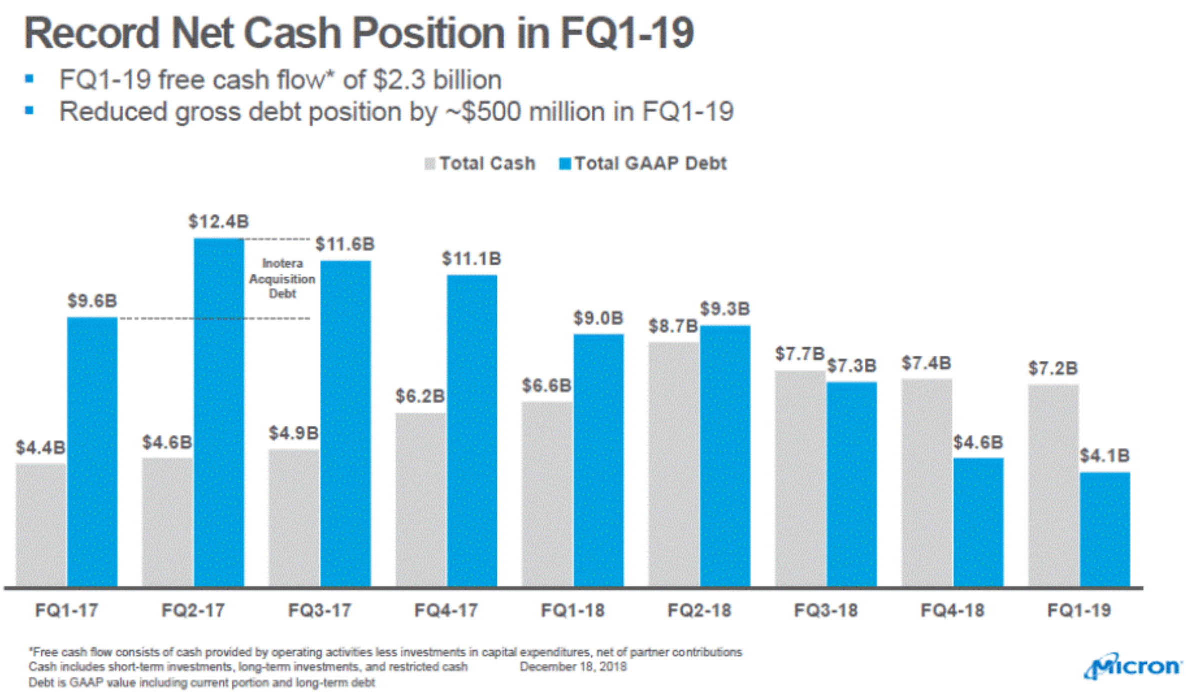
Shares of memory maker **Micron Technology** (MU – $30.32) plunged after reporting fiscal Q1 results and a weaker-than-expected outlook, dragging **Lam Research** (LRCX – $127.16) and other semiconductor capital equipment makers down as well. MU earned an adjusted $2.97 per share, two cents ahead of the consensus estimate, and had net sales of $7.91 billion, compared with the consensus estimate of $8.01 billion.

CEO Sanjay Mehrotra said, "In the first quarter we demonstrated solid execution, further improved our balance sheet and began executing on our $10 billion share buyback program. We delivered strong profitability despite revenue headwinds from the inventory adjustments at several customers and industry-wide CPU shortages. Our results also reflect our success in further diversifying our business as evidenced by record sales in our mobile, automotive and the industrial businesses in the quarter." We note that MU shares are down 26% YTD and more than 50% from the high on May 25, so we think that starting a buyback at this point is a solid idea.

Mr. Mehrotra continued, "As we enter calendar 2019, we are seeing weakening demand from our customers. As a result, we are taking decisive actions, including a meaningful reduction in our fiscal 2019 CapEx plan in both DRAM and NAND that will materially reduce our supply bit growth. We expect the SSD market opportunity will continue to shift from SATA to NVMe. Fiscal 2019 will be a year of transition for our SSD portfolio and we expect our SSD share gains to resume in fiscal 2020. In the meantime, the growth of our high-value NAND solutions in fiscal 2019 will be driven by our mobile managed NAND products, where we believe we have significant opportunity to increase share."

CFO Dave Zisner added, "Given the weaker near-term outlook, we are lowering our CapEx plans to a range of $9 billion to $9.5 billion for fiscal 2019. At the midpoint, this represents a $1.25 billion reduction from our prior guidance and our front-end equipment CapEx is now down year-on-year. We'll continue to remain flexible with capital spending to respond to market conditions. With that in mind, our non-GAAP guidance for the fiscal second quarter is as follows: we expect revenue to be in the range of $5.7 billion to $6.3 billion; and gross margins to be in the range of 50% to 53%; operating expenses are expected to be $800 million plus or minus $25 million. As we execute on longer-term growth investments, we're actively managing OpEx by implementing expense controls across the company including tighter controls on head count, holiday work schedule slowdowns and reductions in discretionary spending. Based on the share count of approximately $1.15 billion fully diluted shares, we expect EPS to be $1.75 plus or minus $0.10. We are making progress on all of our key initiatives including our high-value solutions product portfolio, our cost profile, capital return program and financial structure with a record net cash position ($3.1 billion) and $9.7 billion of liquidity at the end of the fiscal first quarter."

THE PRUDENT SPECULATOR
MU – Much Stronger Balance Sheet



Analysts expect MU to earn $8.13 in fiscal 2019 (down from $10.14 on Dec. 3) and $7.30 in 2020 (down from $9.23 on Dec. 3). While earnings estimates have tumbled along with the stock price, leaving the fundamental metrics not necessarily “cheaper” since our update a few weeks ago, we still think that MU’s valuation is very compelling. MU believes it is “still in the early innings of cloud growth,” and the company expects that the long-term “end customer demand trends remain strong in the cloud market.” We would agree, and we believe that solid state storage (NAND and NVMe) is the way of the future for its size, performance and energy saving properties. We appreciate that memory and data storage have been historically volatile businesses and it has been a rough ride for our relatively brief holding period, but we believe the sell-off offers an attractive entry point for portfolios that are underexposed to cloud growth. Our Target Price for MU is now $73.

System software firm **Oracle** (ORCL – $44.00) posted earnings per share of $0.80, versus the $0.78 estimate, in fiscal Q2 2019. ORCL had sales of $9.6 billion, versus the $9.5 billion estimate. While shares initially traded higher on Wednesday, they closed the day roughly flat and finished the week down 5.6% amid the wider-market selloff.

Oracle Co-CEO Safra Catz told investors, "Total Cloud Services and License Support revenues for the quarter were $6.6 billion, up 5% in constant currency. This accounted for nearly 70% of the total company revenues and most of it is recurring revenues. The gross margin for Cloud Services and License Support was 86%, essentially the same as last year with continuing improvement in SaaS gross margin, stability in software support gross margin, and continued investment in Oracle Cloud Infrastructure. As we continue to scale and grow our Cloud business, I expect our gross margins will ultimately go higher. We remain committed to returning value to shareholders through acquisitions, internal investments and return of capital with stock repurchases and dividends. This quarter, we repurchased 203 million shares for a total of $10 billion. Over the last 12 months, we have repurchased 602 million shares and reduced the absolute shares outstanding by over 12%. The board of directors again declared a quarterly dividend of $0.19 per share."

Mr. Catz also offered the outlook, "For this quarter, non-GAAP EPS in constant currency is expected to grow between 7% to 9% and be between $0.86 and $0.88; and non-GAAP EPS for Q3 in USD, in U.S. dollars, is expected to grow between 3% to 5% and be between $0.83 and $0.85. And while my double-digit constant currency EPS growth guidance for fiscal year 2019 has not been a specific number, I can tell you that internally, I have in fact raised my fiscal year 2019 constant currency EPS growth rate estimate."

Co-CEO Mark Hurd added, "The strength of our bookings growth along with climbing renewal rates gives me confidence that our Cloud Apps business is only, only going to strengthen from here. If I'm not being clear, this is perhaps the best Apps quarter we've had just in terms of bookings, breadth of bookings across the portfolio and the visibility that gives us into the revenue backlog. Looking forward, we still expect full-year revenue growth will be higher than last year and EPS will grow double-digits for the year."

We continue to be encouraged by the possibilities in the cloud business and we believe that ORCL has an experienced leadership team that will drive top-line growth to the bottom line. Oracle shares have tumbled over the last couple of months, and once again are looking attractive, in our view, from a valuation perspective. The stock has a strong proprietary score and inexpensive fundamental metrics like a 12.4x forward P/E ratio. ORCL also has a mountain of cash, while the long-term debt gives the company about $9 billion of net cash. Our Target Price is $60. ORCL currently yields 1.7%.

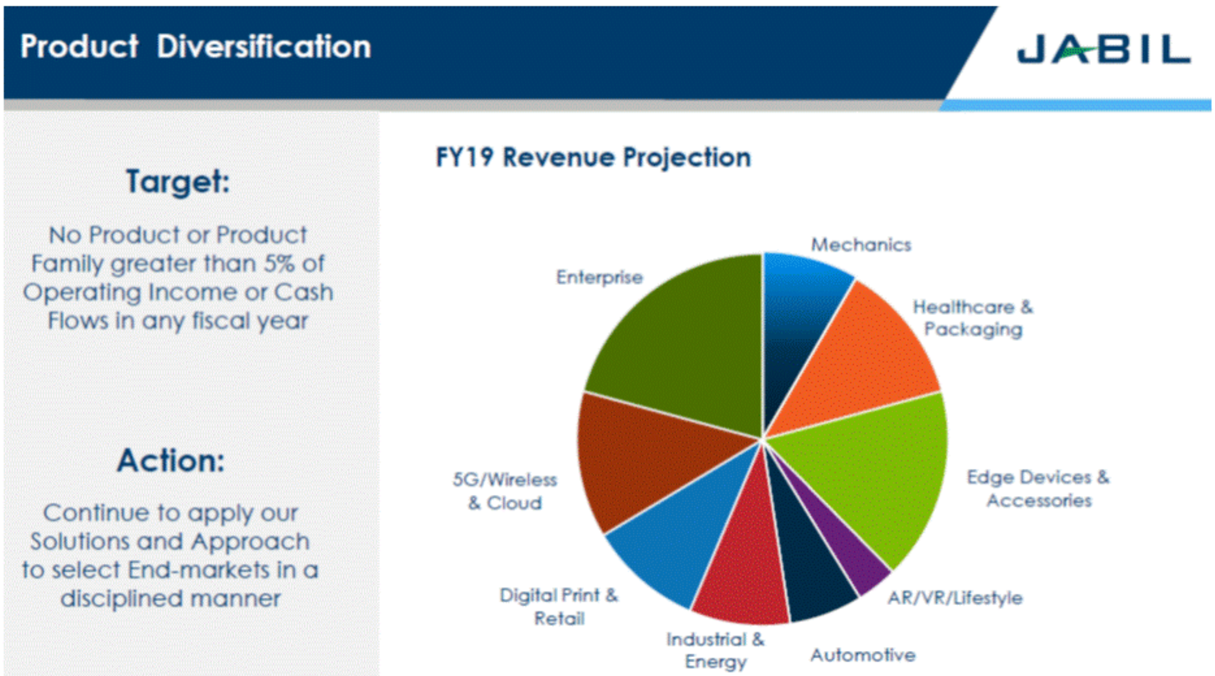
Electronic manufacturing services firm **Jabil** (JBL – $23.40) reported earnings per share of $0.90, versus the $0.88 estimate, in fiscal Q1 2019. JBL had sales of $6.5 billion (vs. $6.1 billion est.). Shares climbed 6.9% following the announcement, before sinking later in the week. Jabil saw 22% y-o-y sales growth in its Electronics Manufacturing Services (EMS) segment, while the Diversified Manufacturing Services (DMS) segment gained 10%. The company returned $200 million to shareholders in Q1 via share repurchases and dividend payments.

CEO Mark Mondello said, “I’d now like to talk about our priorities for the balance of the year. I’ve broken these down into three distinct areas, areas that collectively represent the foundation for our strategy and Jabil’s continued success. The first area is end market and product diversification. The second is the ramp of our new business awards. And the third is our financial performance, which includes free cash flow, margins, and earnings for the year. Today’s outlook suggests better than expected revenue in healthcare & packaging, automotive, 5G/wireless and cloud, all of which are clear target markets for Jabil. I believe this success we’re having will result in ever-improving stability of future cash flows and earnings.”

CFO Mike Dastoor added, “Revenue for our EMS segment increased by 22% year-over-year to $3.5 billion. As Mark indicated, during the quarter, our teams did a good job ramping new wins, which contributed to a strong year-over-year sales growth. From an end market perspective, print and retail, industrial and energy, and 5G and cloud all performed well in the quarter, offset by weakness in capital equipment. Core margins for the segment declined 60 basis points year-over-year to 2.4% driven mainly by two factors: first, softness in the capital equipment space; and second, the costs associated with our ramping new business awards. EMS represented 54% of total company revenue in the quarter.”

Mr. Dastoor offered the Q2 guidance, “DMS segment revenue is expected to increase 6% on a year-over-year basis to $2.6 billion, while the EMS segment revenue is expected to increase 23% on a year-over-year basis to $3.5billion. We expect total company revenue in the second quarter of fiscal 2019 to be in the range of $5.8 billion to $6.4 billion for an increase of 15% at the midpoint of the range. Core operating income is estimated to be in the range of $165 million to $205 million, with core operating margin in the range of 2.8% to 3.2%. Core diluted earnings per share is estimated to be in the range of $0.51 to $0.71. The tax rate on core earnings in the second quarter is estimated to be 27%. In closing, I’m quite pleased with the momentum underway within our business in terms of both diversification and new business awards. We remain focused on delivering $3 in core EPS on $25 billion in revenue, with adjusted free cash flows in the range of $350 million for the year. Over the longer term, we remain focused on delivering shareholder value through strong margins, free cash flow, and earnings growth.”

THE PRUDENT SPECULATOR
JBL – Broad Customer Base



We were pleased to see JBL opportunistically repurchasing nearly 8 million shares amid the quarter's downturn. We think that the EMS business is also attractive, especially as the company continues to bring in new business, while a deal with **Johnson & Johnson** (JNJ – $128.09) will add to DMS segment income in Q3 and Q4. Of course, we also note that the stock presently trades for just 7.6 times the current EPS estimate for the next 12 months. Our Target Price for JBL has been raised to $45.

Air freight and logistics leader **FedEx** (FDX – $158.00) earned $4.03 per share in fiscal Q2 2019 (vs. $3.94 est.). FDX had sales of $17.8 billion (vs. $17.7 billion est.). Shares plunged last week, stoked in part by renewed fears that Amazon's own cargo plane fleet growth would steal significant portions of FedEx's business.

CEO Fred Smith commented, "At FedEx Ground I think it's particularly notable, 96% of packages moved through an automated facility translating to increased efficiency and speed. During this holiday season, service is at record levels. Just yesterday, 67% of FedEx Ground packages were delivered one full day earlier than schedule, despite it being one of the busiest days in the history of our company. What's more yesterday was the busiest shipping day ever at FedEx office. This fall we opened two major Ground hubs with Allentown, Pennsylvania being the largest in the FedEx Ground network. Both Express and Ground hub operations in North Carolina have been recently expanded as well."

Mr. Smith continued, "FedEx second quarter adjusted earnings per share were up 27% year-over-year and we anticipate full- year fiscal 2019 and adjusted earnings per share will increase year-over-year despite difficult global economic conditions. As our volumes and revenues demonstrate, FedEx is experiencing strong growth in the U.S. where the economy remains solid; however, our international business, especially in Europe, weakened significantly since our earnings call in September. In addition, China's economy has weakened due in part to trade disputes. As a result, we have lowered our fiscal 2019 earnings guidance and are accelerating actions to reduce costs given the uncertainty of global macroeconomic trends. We're highly confident that we will achieve the benefits expected with the acquisition of TNT Express, although we will not achieve our FedEx profit improvement goal in fiscal 2019."

"Let me add that we do not manage FedEx solely for quarterly results. In fact, as we speak, we're also currently planning for the next quarter century of FedEx's services operations. Let me thank David Cunningham for his valuable contributions and wish him well in retirement after more than 36 years of service, most recently as President and CEO of FedEx Express. Raj Subramaniam, a 27-year veteran of FedEx, will succeed David. He brings remarkable expertise and vision to this position, which are critical as we manage the Express business as a part of the global portfolio," Mr. Smith concluded in his prepared remarks.

In response to an analyst question about global expansion plans, Mr. Smith said, "We have, as I've said earlier, strategic plans where we think we can attack a larger Express addressable market and can grow FedEx even in a low-growth environment. Now, as we've said repeatedly today, obviously, when you have a change that comes on you as fast as this did, it's hard to react to it. The most important thing that is different about today than has ever been true in the history of the world is billions of people and more being added every day are equipped with a personal order entry device, a mobile telephone, and you can now access the goods of the world and see them, compare shop, and with the services we provide, you can get the landed cost of the item from FedEx Cross Border and have it delivered in one to two business days to virtually any business or any person on the planet. That's never been the case before. And so you have this tremendous bottom-up business ecosphere today that we're right in the middle of, and I think the profundity of that will, in the end, create the demand on an ongoing basis just like it has been for time immemorial for human beings wanting to travel and trade.

"This type of bottom-up commerce is completely changing the politics, for instance, in Africa and in parts of Latin America, which often have been politically mismanaged. But now, people are not as dependent on the patriarchal or the corrupt political class. This is very, very important, and I'll just conclude by saying most of the issues that we're dealing with today are induced by bad political choices, I mean, making a bad decision about a new tax, creating a tremendously difficult situation with Brexit, the immigration crisis in Germany, the mercantilism and state-owned enterprise initiatives in China, the tariffs that the United States put in unilaterally. So you just go down the list, and they're all things that have created macroeconomic slowdowns. The good news is, with a change in policy, they could turn it around pretty quick, too. So, fundamentally, we think trade will continue to grow."

As far as the impact from Amazon Air, Mr. Smith said, "We look at Amazon as a wonderful company and service, and they're a good customer of ours. We don't see them as a peer competitor at this point in time. For many reasons, we think it is doubtful that that will be the case. So we have very strong strategies, well understood by the management team. The addressable markets that we deal with are growing. And as we've said over and over again, we've grown market share particularly in the sectors we want to grow. There've been some sectors that we've chosen not to attack for a number of reasons, and that can change from time to time."

It's worth noting that Amazon Air doesn't fly any airplanes (Amazon does not have an operating certificate). Amazon Air buys capacity (and paints the airplanes in a blue Prime Air livery) from Air Transport Int'l, ABX Air and Atlas Air. While some of the planes are new or new cargo conversions, others have come off lease recently from other cargo carriers and the recent cargo capacity increases are not grand. FDX has a fleet of more than 650 airplanes, while UPS has around 250 and DHL has another 150, plus there are many other smaller carriers in the U.S. In addition, virtually every U.S. 'passenger' airline flight has a belly full of cargo. In terms of capacity, then, Amazon growing from 40 to 50 planes is just a drop in the bucket in terms of airplanes in the sky, and even less significant in terms of total capacity. Certainly, we do not wish to be cavalier and assume that Amazon will never catch up—it might—but, thus far, Amazon Air is an inventory management service for Amazon and the need for more express capacity in the U.S. continues to grow. There's room for everyone at the table.

We like FedEx's strong balance sheet, modest dividend yield and position as an industry leader. Indeed, we agree with Mr. Smith that the geopolitical environment can change rapidly. We are optimistic that it'll be for the better. FDX trades at a reasonable 9.5 times NTM earnings and EPS expectations for the next three fiscal years presently stand at $16.14, $18.06 and $19.91, respectively. Our Target Price is now $321.