MARKET COMMENTARY MONDAY, FEBRUARY 11, 2019

February 11, 2019

EXECUTIVE SUMMARY

Newsletter Portfolio Sales – Two Days After Selling for Clients, Let Go of WFC & SCGLY on Friday
Week in Review – Trade Squabble with China Weighs
Econ Data – Solid ISM Non-Manufacturing Numbers
AAII Sentiment – Bullishness a Little Above Normal
Media Sensationalism – Viruses & December Plunge
2018 Bear Market – Video "Proof"
Secret to Success in Stocks – Staying the Course Through Thick and Thin
Valuations – Very Attractive, Given the Low Interest Rate Environment
Stock Updates – ING, GOOG, ADM, DIS, ALL, GM, MET, NOV, CAH, BHE, TPR, GT & BBT

Market Review

A couple of housekeeping items…as discussed on Wednesday's *Sales Alert*, after waiting two days as is our new policy, we sold the 649 and 127 respective shares of **Wells Fargo** (WFC) held in TPS Portfolio and Buckingham Portfolio at $47.5042 on Friday, February 8. That is also the price we will use for the liquidation of the 301 and 521 WFC respectively held in our hypothetical Millennium Portfolio and PruFolio. The former also held 992 **Societe Generale** (SCGLY), with that position closed out at $5.42.

Though the major market averages managed to post a big rebound in the final minutes on Friday, it wasn't exactly a great end to a trading week in which the S&P 500 eked out a 0.11% advance, while Growth stocks topped Value, with the Russell 3000 Growth index climbing 0.70%, versus a 0.33% decline for the Russell 3000 Value index.

The indexes were quite a bit higher as of Wednesday's close, before concerns about the trade squabble with China reemerged on Thursday when White House National Economic Council Director Larry Kudlow said, "The president has indicated that he's optimistic with respect to a potential China trade deal…But we've got miles to go." Later that same day, it was also reported that President Trump would not meet Chinese President Xi Jinping before the current March 1 deadline to avert higher U.S. tariffs on Chinese goods.

Certainly, worries on the trade front trumped everything, even as domestic economic data out last week continued to hold up reasonably well,…

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THE PRUDENT SPECULATOR
Solid ISM Non-Manufacturing Number

The latest read on the health of the service sector came in at a slightly worse-than-expected 56.7 for January, with the Institute for Supply Management stating, “The past relationship between the NMI® and the overall economy indicates that…January corresponds to a 2.8% increase in real gross domestic product (GDP) on an annualized basis.”

…but we might also point out that there was a big jump in Bullishness in the weekly Sentiment Survey out Thursday morning from the American Association of Individual Investors. While not yet worrisome, given that the 8.1-percentage-point increase to 39.9% merely takes the number of AAII optimists back to just above the 38.2% historical average for the three-plus-decade-old gauge, the number of pessimists dropped 9.0 percentage points to 22.8%. AAII often has been a contrarian indicator on short-term market moves, so we always prefer to see elevated Bearish readings.

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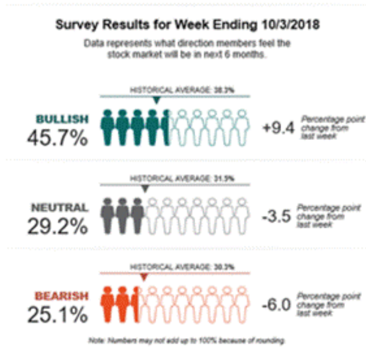
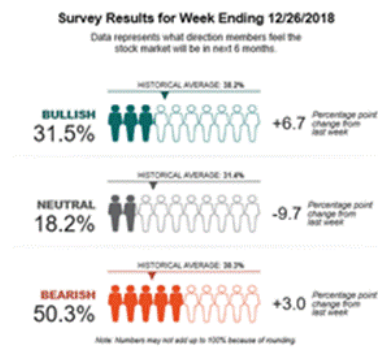
THE PRUDENT SPECULATOR
AAII: Buying High and Selling Low



Form doesn't always hold, of course, but the last four+ months show why the AAII Sentiment Survey is viewed as a contrarian indicator. Sadly, many folks buy high and sell low.



While we like the Warren Buffett quotation, "Be greedy when others are fearful and fearful when others are greedy," we know that investor attitudes toward the financial markets can turn on a dime. This is especially true as attention spans are short and media coverage must be sensationalistic in order to draw any eyeballs. Of course, today is not a whole lot different than what has been witnessed in the past, as fear is the much more powerful emotion into which the press will tap, such as in early-2015 with the Ebola Scare,...

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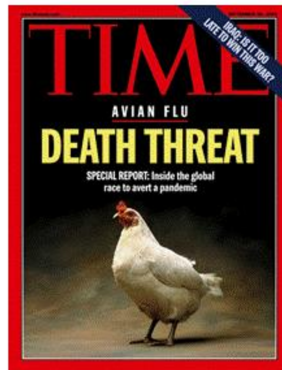
Viruses Have Yet to Kill the Stock Market

August 24, 2009



September 26, 2005

May 5, 2003

July 4, 1983

...or in late December when the plunge in the equity markets spilled over into general news coverage.

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THE PRUDENT SPECULATOR
Bear Market Media Coverage – 12.26.18

They don't ring a bell at the bottom, but it is often a very good sign to see the mainstream media turn its gaze to the equity markets. Alas, the time to "protect" your investments is probably not AFTER stocks have just suffered their worst December decline since the Great Depression!

We titled the slide above, "Bear Market Media Coverage," because much of the financial press is already failing to acknowledge that stocks suffered a Bear Market (20% or greater decline) last year.

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Market of Stocks — 2018 Bear Market

2018 Bear Market

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

Now, to be fair, on a closing basis, the S&P 500 fell “only” 19.8%,...

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THE PRUDENT SPECULATOR
2018 Bear Market: 09.21.18 – 12.26.18

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

...but we might counter, “People only trade stocks when the market is closed, right!” More importantly, perhaps, we also have video evidence from financial television to support our Bear Market contention!

Bear Market '18: Financial TV Confirms

December 24, 2018

"The S&P 500 entered Wednesday's session in a bear market, down 20.06 percent from an all-time intraday high set on Sept. 21 amid ongoing turmoil in Washington. Stocks entered bear market territory on Monday after the worst Christmas Eve sell-off in history." – CNBC.com

Certainly, the issue of Bear or No Bear is irrelevant to those who truly are long-term investors, as we can reasonably assert that stocks have been in a nine-decade up-trend,...

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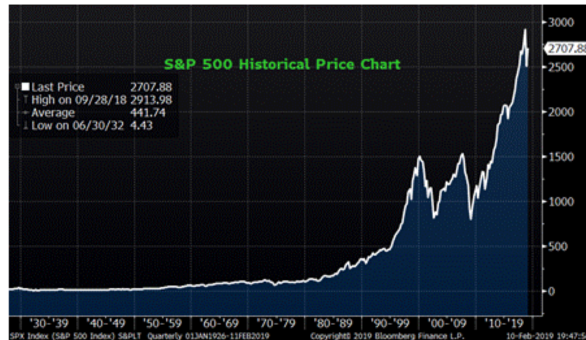
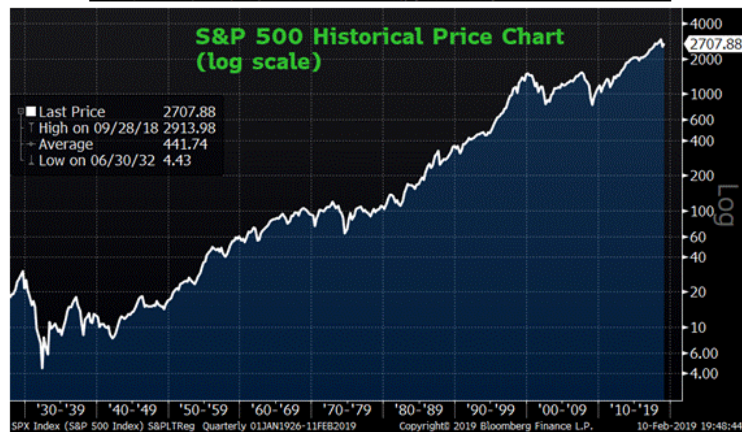
Ups & Downs, But Long-Term Trend Is Up

The 2018 Bear Market, the Bursting of the Tech Bubble in 2000-2002 and the Financial Crisis/Great Recession in 2007-2009 are about the only visible blips on the long-term (back to 1927) chart of the S&P 500 index, but if one utilizes a log-scale for the Y-axis, the swings of the equity markets over the past 90 years are more easily evident. Of course, the long-term trend has been very favorable AND these charts show only price appreciation of the S&P 500, ignoring the historically lucrative impact of dividends and their reinvestment.





...but far too many folks forget that the secret to success in stocks is not to get scared out of them!

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The Secret to Success in Stocks…

"Of course, the immediate future is uncertain; America has faced the unknown since 1776. It's just that sometimes people focus on the myriad of uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful). American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor."

– Warren Buffett

As always, we will not be surprised if the markets soon suffer one of those periodic setbacks, but we continue to think that stocks in general are attractively priced, especially given the recent downturn in interest rates.

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THE PRUDENT SPECULATOR
Fed Model: Favorable Earnings Yield

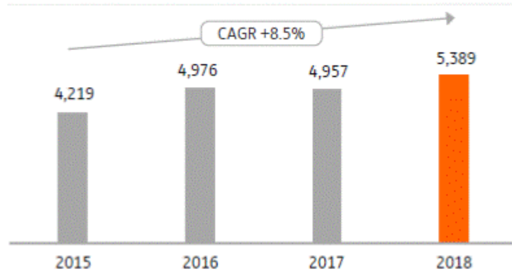
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively rich earnings yield of 5.55%.

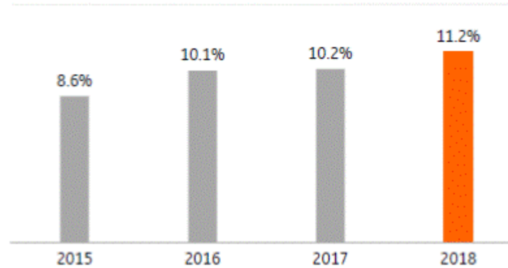
Stock Updates

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 offers updates on a baker's dozen of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices…

ING Groep NV (ING – $12.20) reported earnings per share of $0.36, versus the $0.33 estimate, in fiscal Q4 2018. Shares traded higher by 5% immediately following the announcement but gave up some of the gains to finish the week a more-than-respectable 3% better. ING posted a return on equity of 11.2% and Q4 net interest margin of 1.56%, while the aforementioned EPS excluded a roughly $900 million settlement with Dutch authorities related to anti-money laundering violations.

Underlying result up 8.7% in 2018; ROE at 11.2% for the year





- ING recorded underlying 2018 net profit of €5,389 mln, up 8.7% on 2017, mainly supported by higher income and a lower effective tax rate
- The 2018 underlying return on equity* improved further to 11.2% compared to 10.2% a year earlier

* Including the settlement impact of €775 mln recorded in 3Q18, ING's 2018 net result was €4,703 mln (versus €4,905 mln) while ING's 2018 total return on average IFRS-EU equity excluding 'interim profit not included in CET1 capital' was 9.8% (versus 10.1% in 2017)

7 ING

CEO Ralph Hamers commented, "We think the recent performance confirms that we continue on the right track with the execution of our Think Forward strategy. The direction that we took five years ago to build the digital bank of the future I think is even more valid today as we see that the world around us is changing even faster. We have laid a strong operational and financial foundation in the past few years, and you should expect us to continue to have a relentless focus on achieving operational excellence and operational leverage. 2018 certainly has had its challenges, which has forced us to reprioritize. Regulatory compliance remains the key priority for the firm for the years to come... I think it's also good that we start to take a look ahead, and I'm very happy to welcome many of you at our Investor Day in Frankfurt next month to give you more insight into our capabilities and digital leadership."

With the stock well off its peak set in January 2018, we think there remains plenty of upside. ING has done a reasonably good job navigating a difficult European environment that has caused great trouble for its peers, while keeping interest margins up and paying shareholders a solid net dividend yield above 5%. ING now trades for 8.1 times estimated earnings and near book value. Our Target Price has been edged up to $21.

Alphabet (GOOG – $1095.06) posted non-GAAP earnings per share of $15.67, versus the $13.04 estimate, in fiscal Q4 2018. GOOG had sales of $31.8 billion (vs. $31.3 billion est.). Though shares gyrated down and up following the release, they finished the week down more than 3%. While Alphabet posted results solidly ahead of estimates, analysts wondered (via research notes) if the company's falling margins were a peek into the future.

CFO Ruth Porat said, "We had a strong 2018 with total revenues of $136.8 billion, up 23% over 2017, reflecting the benefit of our ongoing investments to deliver exceptional experiences for users and compelling returns for our advertisers, partners, and enterprise customers. For the fourth quarter, revenues of $39.3 billion were up 22% year on year and up 23% inconstant currency, as we continued to benefit from ongoing strength in mobile search, with important contributions from YouTube, cloud, and desktop search."

Ms. Porat explained that the increasing revenue acquisition costs (which result in lower margins) were caused by, "Total cost of revenues was $17.9 billion, up 26% year on year. The key drivers were, first, content acquisition costs primarily for YouTube, mostly for our advertising-supported content in what is a seasonally strong quarter for YouTube, but also for our newer subscription businesses, YouTube Premium and YouTube TV, which have higher CAC as a percentage of revenues; second, costs associated with our data centers and other operations, including depreciation; and third, hardware-related costs for our Made by Google and Nest family of products."

Contrary to some, we are pleased that Alphabet is making substantial investments in areas that present growth opportunities, particularly with YouTube Premium and Youtube TV. Both present a very real problem for cable TV providers and require significant initial investment to get up and running. Customers certainly have seemed willing to switch away from their huge cable bills, but only provided some reasonable assurance that the replacement service is up to par.

The company also expects currency-related headwinds due to the strengthening U.S. dollar, while traffic acquisition costs related to its Google search engine are expected to increase (though more slowly than last year), which Alphabet views to reflect "ongoing strength in mobile search." We think GOOG has relatively reasonable valuation metrics (including a forward P/E of 19.7, with non-GAAP EPS expected to grow from $54.21 in 2018 to $74.68 in 2021) and a terrific balance sheet ($105 billion in net cash or $151 per share). While Alphabet doesn't pay a dividend, management has said that it will buy back shares. Our Target Price has been bumped up to $1,567.

Agricultural products firm **Archer-Daniels-Midland** (ADM – $41.76) earned $0.88 per share in fiscal Q4 2018 (vs. $0.92 est.). ADM had revenue of $15.9 billion, versus the $16.8 billion estimate. Excluded from ADM's $0.88 of EPS was a $0.35 impairment charge. Shares slid 6.9%, due to lower Merchandising and Handling

revenue (significant insurance settlements), poor Nutrition results and weak pricing in Bioproducts/ethanol.

CEO Juan Luciano said, "Throughout the year, we focused on executing our strategy on pulling the levers under our control. The result was a year in which we delivered full-year adjusted segment operating profit of $3.4 billion, 26% higher than 2017; adjusted EPS 44% higher year-over-year; strong operating cash flows, up more than 40%; and four-quarter trailing ROIC of 8.3%, 200 basis points above our annual WACC. 2018 was a year in which, regardless of market conditions, we continued to execute, improve and grow, resulting in a range of impressive accomplishments. In our optimize pillar, we divested our Bolivian Oilseeds business, took important steps to optimize our U.S. Origination footprint, and engineered significant turnarounds in our Global Trade and South American Origination businesses."

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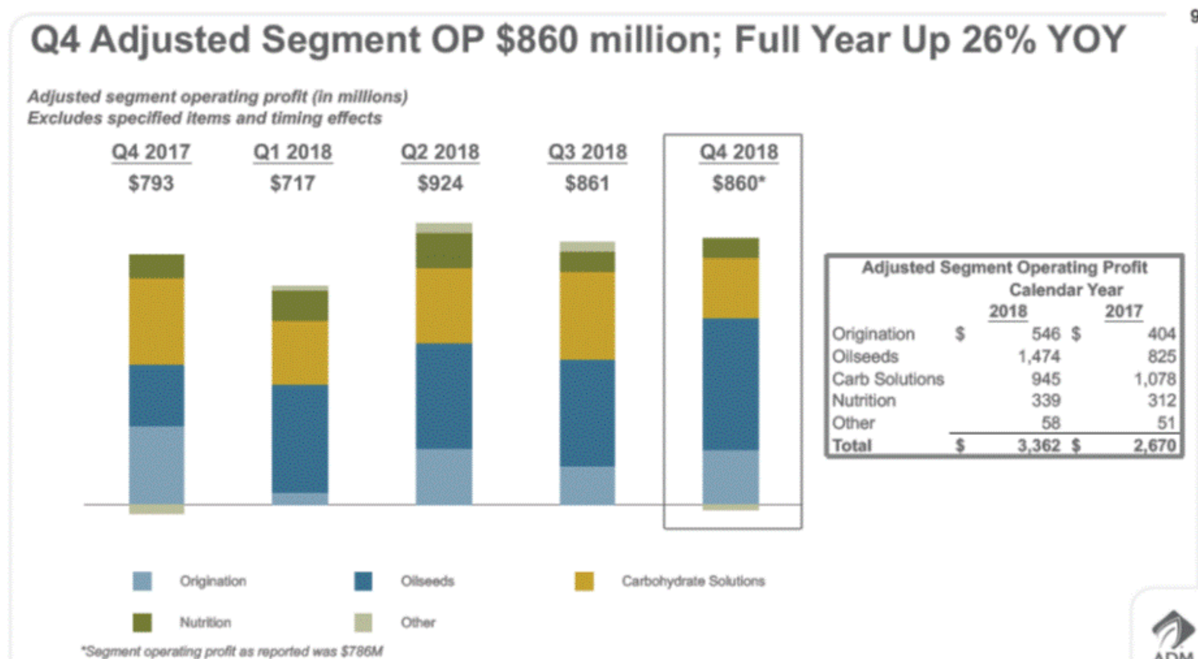
ADM – Pretty Good 2018



Adjusted Segment Operating Profit
Calendar Year

	2018	2017
Origination	$ 546	$ 404
Oilseeds	1,474	825
Carb Solutions	945	1,078
Nutrition	339	312
Other	58	51
Total	$ 3,362	$ 2,670

CFO Ray Young added, "Looking ahead to the first quarter of 2019, we expect results to be lower than the very strong first quarter of 2018. Excluding the impacts of the biodiesel tax credit in the first quarter of 2018, first quarter 2019 results would be significantly higher year-over-year. Crushing and Origination should see continuing strong volumes and contributions from our investments in

Algar, SoyVen and North American plant expansions. We expect margins to be in line with the first quarter of 2018 when timing impacts from that quarter are taken into account. We expect good performance from RPBO, though year-over-year results will be lower due to the first quarter 2018 benefit of the retroactive biodiesel tax credit."

Operational headwinds remain, yet we are very optimistic about the longer-term global secular growth trends in agriculture and we like that ADM's scale gives it advantages over regional competitors. We also note that the company continues to work to strengthen its balance sheet, reshape its portfolio and return cash to shareholders. ADM currently yields 3.4% and trades for 11.8 times NTM EPS forecasts. We have trimmed our Target Price to $56.

Movies, entertainment and theme park company **Walt Disney** (DIS – $111.51) earned $1.84 per share in fiscal Q1 2019 (vs. $1.54 est.). DIS had sales of $15.3 billion (vs. $15.2 billion est.). DIS benefitted from a revenue increase in its Cable Networks segment, while operating income fell due to decreases from ESPN and Freeform. Parks, Experiences & Consumer Products benefitted from visitor growth, higher guest spending and higher occupied room-nights.

CEO Bob Iger said, "DTC (Direct to Consumer) remains our number one priority. Our corporate reorganization was designed to support our DTC efforts, while providing a greater degree of transparency into our investment and our progress in this space. We remain focused on the programming as well as the technology to drive the success of our DTC business and we're thrilled with the continued growth of ESPN+. The very first UFC Fight Night under our new 5-year rights deal led nearly 600,000 fans to sign up for this service. ESPN+ now has 2 million paid subscriptions, double the number from just 5 months ago. ESPN+ operates on BAMTech's platform, which is proved to be reliably stable during peak live streaming consumption and easily handle the volume of more than 0.5 million people signing up in a single 24-hour period. This same technology will power Disney+ when it launches later this year."

Mr. Iger added, "The addition of content and management talent from 21st Century Fox will further enhance our DTC efforts and provide opportunities for growth across the company. Having already designed much of the integration process, we're prepared to start effectively combining our businesses as soon as we obtain regulatory approval from the last few remaining markets. We look forward to working with the tremendous teams at 21st Century Fox to create the world's premier global entertainment company."

We are pleased that Disney won the battle for the Fox assets late last year, and we think the acquisition strengthens an already best-in-class content portfolio. DIS should enjoy increased production and marketing scale, and the Disney+ subscription should be a content delivery method with significant potential. We also like the focus on DTC, as cutting out middlemen should yield stronger financial results and perhaps a more positive customer experience. In addition,

the Disney film studios have been able to churn out plenty of winners that have dwarfed the inevitable losers, and we see no change in that success formula anytime soon. DIS shares yield 1.6%. Our Target Price now stands at $150.

Property & casualty insurer **Allstate** (ALL – $92.46) posted earnings per share of $1.24, versus the $1.10 estimate, in fiscal Q4 2018. Shares climbed 4% following the announcement, buoyed by growing margins and increased premiums in the Allstate and Esurance brands.

CEO Tom Wilson said, "We delivered on all five 2018 operating priorities. The first three, better serve our customers, achieve target economic returns on capital and grow the customer base, are all intertwined. What it does is ensure we have profitable long-term growth. Customers were better served as the Net Promoter Score improved across all of our major businesses. Higher customer retention across the three underwriting brands was a key driver of growth last year."

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ALL – Solid Quarter & Year

Allstate Delivers Strong Growth and Attractive Returns in 2018

- Allstate continues to deliver strong operating results while building the future
- Achieved all five 2018 Operating Priorities
- Adjusted net income return on equity* of 14.8% for 2018
- Property-Liability underlying combined ratio* of 85.8 for the full year 2018 is within revised annual outlook range of 85-87
  - 2019 annual Property-Liability underlying combined ratio* outlook of 86-88

	Three months ended December 31,			Twelve months ended December 31,		
($ in millions, except per share data and ratios)	2018	2017	Change	2018	2017	Change
Total revenues	$9,481	$10,062	(5.8)%	$39,815	$39,407	1.0%
Total revenues (excl. realized capital gains and losses)	10,375	9,935	4.4%	40,692	38,962	4.4%
Property-Liability insurance premiums	8,422	7,971	5.7%	32,950	31,433	4.8%
Net investment income	786	913	(13.9)%	3,240	3,401	(4.7)%
Realized capital gains and losses	(894)	127	NM	(877)	445	NM
Income applicable to common shareholders:						
Net income	(312)	1,220	NM	2,104	3,073	(31.5)%
per diluted common share	*(0.91)*	*3.35*	*NM*	*5.96*	*8.36*	*(28.7)%*
Adjusted net income*	430	762	(43.6)%	2,851	2,467	15.6%
*per diluted common share**	*1.24*	*2.09*	*(40.7)%*	*8.07*	*6.71*	*20.3%*
Return on common shareholders' equity (trailing twelve months)						
Net income applicable to common shareholders				10.5%	15.5%	(5.0) pts
Adjusted net income*				14.8%	13.4%	1.4 pts

NM = not meaningful

Allstate Earnings Conference Call Presentation: February 6, 2019

2

We like that ALL continues to benefit from a relatively strong domestic economy and growth in niche brands like SquareTrade (which has been helped by an exclusivity agreement with a big U.S. retailer). We remain confident that the company is well-positioned for the long term, thanks to its vast distribution network, scale and resulting cost advantages, pricing sophistication and product

design. Additionally, we like that management actively buys back stock. ALL trades for 10.2 times estimated NTM earnings and yields 2.2%. Our Target Price has been hiked to $118.

Global automobile manufacturing giant **General Motors** (GM – $38.70) reported another strong quarter, beating both top and bottom-line consensus estimates for Q4. GM turned in adjusted EPS of $1.43, versus the $1.25 that was expected. Revenue for the period came in at $38.4 billion (vs. $36.5 billion est.). Solid results for GM North America and GM Financial helped offset relative weakness in GM's International segment and a $194 million loss from GM's Cruise autonomous vehicle subsidiary.

CEO Mary Barra commented, "GM delivered another strong year of earnings in a highly volatile environment in 2018. We will continue to make bold decisions to lead the transformation of this industry and drive significant shareholder value." CFO Dhivya Suryadevara added, "We navigated significant headwinds in 2018 to deliver another year of strong results, demonstrating the earnings resiliency of this company. The actions we've been taking to shape a stronger, more profitable portfolio of businesses position GM for long-term success."

While Q1 is expected to be GM's toughest quarter of this year, the company is expecting to deliver adjusted EPS of $6.50 to $7.00 for 2019, which, given strong results over the past handful of quarters, leaves us wondering why shares continue to trade so cheaply. The stock changes hands at just 5.7 times the midpoint of management's full-year 2019 guidance and yields 3.9%. With GM executing on its core business, becoming more efficient and effective, while the company has made major progress in electric and autonomous vehicle production, we can't help but be major fans of the improved balance sheet, cost control initiatives, ability to generate stronger free cash flow and generous capital return programs. Not surprisingly, we continue to see meaningful upside in the shares with our Target Price driven ahead a bit to $57.

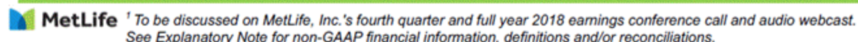
Life and health insurer **MetLife** (MET – $42.71) earned $1.35 per share in fiscal Q4 2018 (vs. $1.28 est.). Shares slipped 5.5% into the weekend, as investors expressed their displeasure with the firm's 4% year-over-year drop in earnings, lower recurring interest margins and less-favorable underwriting. In addition, benefits from changes to U.S. tax policy have made Q4 2017 vs. Q4 2018 comparisons look comparatively weak.

CEO Steve Kandarian commented, "Overall, 2018 was an excellent year, driven by solid underwriting, good volume growth, disciplined expense management and tax reform. These positive fundamentals were enhanced by the impact of significant and consistent capital management. Reflecting the strong full year results, adjusted return on equity in 2018 was 12.6%."

Adjusted Earnings ex. Total Notable Items by Segment

($ in millions) – Post-tax

	4Q18	4Q17	% Change	% Change (Constant Rate)	Highlights[1]
Group Benefits	$230	$230	—%		+ Volume Growth; + Taxes; - Underwriting Margins; - Investment Margins
Retirement and Income Solutions	356	235	51%		+ Underwriting Margins; + Investment Margins; + Volume Growth; + Taxes
Property & Casualty	99	88	13%		+ Taxes
U.S.	**$685**	**$553**	**24%**		
Asia	**281**	**310**	**(9%)**	**(8%)**	- Underwriting Margins; - Capital Markets; + Volume Growth; + Taxes
Latin America	**137**	**125**	**10%**	**19%**	+ Expense Margins; + Underwriting Margins; + Volume Growth; - Equity Markets; - Taxes
EMEA	**55**	**79**	**(30%)**	**(24%)**	- Underwriting Margins; - Taxes; + Expense Margins
MetLife Holdings	**223**	**242**	**(8%)**		- Equity Markets; - Investment Margins; +/- Underwriting Margins; + Expense Margins; + Taxes
C&O	**(132)**	**(133)**	**1%**		+ Expense Margins; + Investment Margins; - Taxes
Adjusted Earnings, ex. Total Notable Items	**$1,249**	**$1,176**	**6%**	**8%**	
Adjusted EPS, ex. Total Notable Items	**$1.26**	**$1.11**	**14%**	**16%**	



MetLife [1] *To be discussed on MetLife, Inc.'s fourth quarter and full year 2018 earnings conference call and audio webcast. See Explanatory Note for non-GAAP financial information, definitions and/or reconciliations.* 6

MET continues to opportunistically buy back stock. Mr. Kandarian said, “Moving to capital management, I indicated in mid-December that we have repurchased $700 million of MetLife shares since reporting earnings on November 1st, which extinguished our prior authorization and began utilization of our current $2 billion authorization. During the balance of December, we took advantage of market conditions and repurchased an additional $500 million at an average price of $39.46 per share bringing fourth quarter share repurchases to $1.2 billion. There remains $1.3 billion outstanding on our current authorization. All totaled, we repurchased $4 billion of MetLife common stock and paid $1.7 billion of common dividends during 2018 to bring total capital return to common shareholders to $5.7 billion, well ahead of our $5 billion target and more than 100% of full year adjusted earnings.”

Overall, we still believe that MET has a solid financial foundation, and we like its business mix and ability to generate stable cash flow. While ownership of MET shares in 2018 was a somewhat volatile ride, we think it’s a worthy position in our diversified portfolios, as we are fans of the substantial international operations and see them as a core driver for raising the growth profile. We are fond of MET’s underwriting discipline and its position as the market leader in group life, where it provides insurance to 90% of the companies in the Fortune 100. MET trades at

7.9 times NTM consensus adjusted EPS estimates and yields 3.9%. Our Target Price has been elevated to $75.

Oil and gas equipment and services firm **National Oilwell Varco** (NOV – $28.35) saw its shares drop more than 5% last week after reporting Q4 financial results. While adjusted EPS of $0.08 was largely in line with analyst expectations, revenue of $2.4 billion was almost 10% better than forecasts. The Q4 revenue lift was 11% higher than Q3 of 2018 and an increase of 22% from the year-ago period. Investors were seemingly concerned by the cautious near-term outlook, given the oil price downturn, and management saying that some orders sent the company's way may have been pushed forward as customers might cut CAPEX in 2019.

"During 2018 our team delivered outstanding execution in a volatile operating environment by focusing on our customers' need for solutions that improve their operating efficiencies," commented CEO Clay Williams. "Each of our operating segments delivered double-digit percent revenue increases in 2018, contributing to a 16% increase in consolidated company revenue and a 49% increase in Adjusted EBITDA, year-over-year."

Mr. Williams continued, "The sharp, fourth quarter pull-back in commodity prices heightened uncertainty surrounding 2019 capital budgets and led to an abrupt slowdown in orders, while some of our customers chose to accelerate deliveries prior to year-end. We anticipate that lower orders in December, combined with equipment sales that were pulled forward near year-end, will lead to lower sequential revenue during the first quarter 2019 in all three segments. However, encouraged by the recent uptick in oil prices, some of our customers have recently signaled their intent to increase activity, particularly in certain international and offshore markets. While the near-term outlook remains uncertain, NOV's portfolio of critical technologies to support the oil and gas industry, together with our track record of adapting quickly to changing market conditions, positions us well for any market environment."

The energy patch continues to be a turbulent place to invest, but we are optimistic about the right-sizing and optimization of its operations and costs, which should prove beneficial when the always-cyclical industry begins to swing back upward. We still believe in long-term energy demand growth with the global population expected to expand to 9 billion and economic output more than doubling by 2040. For NOV, this should create opportunities as energy companies move toward unconventional technologies, replace aging rig fleets, build out deepwater fleets and develop floating production systems. Our Target Price has been pared to $42.

Health care distributor **Cardinal Health** (CAH – $52.67) earned $1.29 per share in fiscal Q2 2019 (vs. $1.09 est.). CAH had total revenue of $37.7 billion, versus the $36.1 billion estimate. Shares climbed 6.8% following the announcement, boosted by the significant Q2 beat and increased guidance for the balance of the year.

CAH CEO Mike Kaufmann said, “Overall, the second quarter came in ahead of our expectations, led by the Pharma segment. Overall, this business continues to be powered by our partnerships with strong, growing customers and the critical role we play in supporting their missions, day in and day out. Serving more than 26,000 pharmacies on a daily basis and 10,000 specialty physician offices and clinics, we are integral to their businesses and to their success meeting patients' needs. As anticipated, our generics program remained the most significant profit headwind, and overall generic market dynamics remain consistent with prior quarters. On the positive side, we benefited from improvement in brand volume. Within this environment, driving down our cost and increasing efficiency remains critical, and during the quarter we saw positive impact from the cost-reduction initiatives we have underway.”

CFO Jorge Gomez added, “Regarding our cost optimization work, we now expect to exceed $100 million of annualized savings for fiscal 2019. We also expect to exceed the aggregate $200 million in savings by the end of fiscal 2020. We continue to empower our employees to reset spending practices across the enterprise, and this work will increase productivity, support our priorities and fuel growth initiatives. Moving on to strategic uses of cash, during the quarter, we deploy capital primarily to fund capital expenditure needs of the business and our quarterly dividend.”

Q2 FY19 trailing five quarters segment analysis

Pharmaceutical segment					
	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Revenue ($M)	31,146	29,720	31,455	31,416	33,740
Segment Profit ($M)	514	596	416	409	443

Medical segment					
	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19
Revenue ($M)	4,044	3,916	3,898	3,801	4,006
Segment Profit ($M)	220	199	114	135	188

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CAH expects to earn $4.97 to $5.97 per share in FY 2019, versus the previous guidance of $4.90 to $5.15 per share. We were pleased to see strong execution in the quarter, despite some of the political saber-rattling going on over drug pricing and health care costs in general. We believe that CAH will benefit in the long term from demographic trends in the U.S. as the population continues to age and requires greater health care usage. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 3.6%), buy back stock and invest in the business via research & development and mergers & acquisitions. CAH shares trade for just 10.5 times NTM earnings expectations. Our Target Price has raised slightly to $81.

Electronic manufacturing services firm **Benchmark Electronics** (BHE – $27.53) earned $0.41 per share in fiscal Q4 2018 (vs. $0.35 est.). BHE had revenue of $657.0 million, versus the $632.0 million estimate. Shares rose 3.5% following the announcement.

CEO Paul Tufano, who announced his retirement, said, "We have continued to aggressively buy back our shares. For 2018, we repurchased $212 million of our stock and reduced our outstanding share count by 17%. We continue to currently repurchase shares and through February 6, were purchased $17 million of

additional shares. We continue to make excellent progress on bookings which are critical to revenue growth. This quarter, we posted solid bookings of $198 million and $721 million for the full year, which is up 23% year-over-year. If we reflect back to this time period in the fourth quarter of 2016, bookings are up 55%."

Looking to the current year, CFO Roop Lakkaraju said, "Overall, we expect Industrial revenues to be downlow singles from seasonally softer demand. A&D expected to be flat in Q1 based on slower program ramps, which are expected to recover in subsequent quarters. We expect Medical revenues to be up low-single digits, driven by new customer programs. In Test & Instrumentation, we expect to decline 10% from continuing softness in semi-cap. We expect Computing revenues to be down greater than 30% due to seasonality and Telco down mostly from new program timing. Implied in our guidance is a 2.7% to 3.2% operating margin range."

We like that Benchmark continues to use the stock price weakness to buy back massive chunks of shares and the 37% gain (including dividends) since Christmas Eve was a welcomed reversal from an otherwise difficult 2018. We are still fans and like that Benchmark continues to expand its product offerings and that it has been pushing for growth outside of its original markets. Shares trade with a forward P/E ratio of 16.5 (still more than reasonable for an IT name) and we remain very enthused about the balance sheet, which boasts about $7 per share of net cash. Our Target Price has inched up to $33 and we note that BHE sports a 2.2% dividend yield.

Tapestry (TPR – $33.86) reported earnings per share of $1.07, versus the $1.11 estimate, in fiscal Q2 2019. TPR had sales of $1.8 billion, versus the $1.9 billion estimate. Shares cratered, falling nearly 15%, as the top- and bottom-line misses were compounded by cuts to FY 2019 EPS and revenue guidance. Despite reporting "strong" holiday results, TPR suffered from a volatile macroeconomic and geopolitical backdrop.

CEO Victor Luis said, "Across Tapestry, we made significant progress on our strategic pillars during Q2. Notably, maximizing the opportunity with the Chinese consumer globally. To this end, Coach held its first ever runway show in Shanghai, which was incredibly well-received by the editorial community and generated more than 1.1 billion impressions. At Kate Spade and Stuart Weitzman where we are focused on driving awareness in the region, we invested in key talent, infrastructure as well as marketing partnerships with Chinese brand ambassadors, while expanding our reach through the opening of new stores."

CFO Kevin Wills said of the outlook, "In light of our second quarter results and the uncertain global environment, we are revising our outlook for FY 2019. With sales, we expect total revenues for Tapestry in fiscal 2019 to increase at a low to mid-single digit rate from fiscal 2018. This includes the expectation for low-single digit growth at Coach driven by continued positive low-single digit comps. In addition,

we continue to project an increase in Tapestry's gross margin for the year although to a lesser degree than originally anticipated."

THE PRUDENT SPECULATOR
TPR – Weak, but not Awful, Guidance

Mr. Will continued, "Overall, we are projecting earnings per diluted share for the year in the range of $2.55 to $2.60. It is important to note that we continue to expect meaningful variability by quarter in the back half of the year. We are planning a higher level of SG&A growth in the third quarter based upon the timing of our regional buyback activity, new store opening plans and our investments in systems, as well as the shift in Kate Spade marketing spend, Victor mentioned. While in Q4, we expect revenue growth to accelerate as we gain traction at Kate Spade and Stuart Weitzman enable us to drive leverage. Therefore, taken together we would expect operating income and EPS to decline in the third quarter, while increasing in Q4."

TPR has fared particularly poorly over the last two quarters, despite looking like it was going to turn over a new leaf midway through last year. Certainly, the Q2 top- and bottom-line miss was disappointing, and we are disappointed in the weak outlook, despite many in Tapestry's peer group reporting positive outlooks. We have been patient given TPR's organizational changes (to Tapestry from Coach, as well as acquisitions), and the shares' reasonable valuation (12 times NTM EPS) and

4.0% dividend yield allows us to continue to hold, though our Target Price has been sliced to $56.

It was quite disappointing to see shares of **Goodyear Tire** (GT – $18.69) fall another 11% last week following the release of Q4 financial results, given that the stock had already been hit after last month's warning by management that the results would be below expectations. Obviously frustrating was the fact that management lowered its outlook, and then missed the revised numbers.

For the quarter, GT reported adjusted EPS of $0.51, versus reduced expectations of $0.60. Revenue of $3.88 billion came in about 1% below consensus forecasts. Results were materially hurt by lower sales and operating margins across all three geographic segments. Management remained cautious about 2019 and its Asia Pacific business.

Despite a second disappointing quarter in a row, CEO Richard J. Kramer focused on some of the positives, "Our teams delivered several operational wins in 2018, including increasing our consumer replacement volume and building our OE pipeline by securing numerous fitments, notably on future electric vehicles. These achievements are a testament to our product innovation, the strength of our distribution network and the value of the Goodyear brand."

"Additionally, we achieved a number of strategic objectives throughout the year that strengthen our connected business model and move us closer to our customers, allowing us to improve our service levels and positioning us to be a leader in the changing mobility landscape. While many of the macro challenges we faced in 2018 have extended into 2019, we continue to build on what we accomplished last year and remain focused on delivering a higher level of earnings over the longer term," Mr. Kramer concluded.

Despite the challenges and our growing impatience with the lack of consistent execution by GT, overall we still believe that the company can deliver long-term returns for investors. We think that continued strong employment, rising wages and solid consumer sentiment are conducive to keeping new car demand solid, as well as folks traveling more and thereby creating more wear and tear on tires (spurring replacements). We think that Goodyear also should gain from higher long-term demand in emerging markets. We are also optimistic that GT can keep expenses in check, improve cash flow and strengthen the balance sheet. Our Target Price for GT, which trades for 7.1 times NTM adjusted EPS expectations and yields 3.4%, is now $33.

Shares of **BB&T Corp** (BBT – $50.24) rose last week after the company announced plans to merge with SunTrust Banks. The merger would give the combined entity nearly $440 billion in total assets, which would make it the sixth-largest U.S. retail bank, just behind U.S. Bancorp. The all-stock deal was valued at $28.2 billion when it was announced.

BB&T CEO Kelly King said, "This is a true merger of equals, combining the best of both companies to create the premier financial institution of the future. It's an extraordinarily attractive financial proposition that provides the scale needed to compete and win in the rapidly evolving world of financial services. Together with Bill's leadership and our new SunTrust teammates, we're going to bring the best of both companies forward to serve our clients and communities."

SunTrust CEO Bill Rogers, Jr. added, "By bringing together two mission- and purpose-driven institutions, we will accelerate our capacity to invest in transformational technologies for our clients. Our shared culture embraces the disruption of technology and we will take this innovative mindset to expand our leadership in the next chapter of these historic brands. With our geographic position, enhanced scale and leading financial profile, these two companies will achieve substantially more for clients, teammates, associates, communities, and shareholders than we could alone. I have tremendous respect for Kelly, his leadership team and the BB&T associates. We will leverage our respective strengths as we focus together on the future."

BB&T stated that the merger's strategic and financial benefits include strong cultural alignment, leading financial profile and operating metrics, increased profitability and scale to drive new innovations, revenue growth through complementary businesses, and significant cost synergies. Assuming the regulatory hurdles are cleared, SunTrust CEO Mr. Rogers will become the President and Chief Operating Officer, while BB&T CEO Mr. King will be the Chairman and Chief Executive.

In our October 22 Market Commentary, we noted that "BBT is always on the prowl for additive bolt-on acquisitions, which could enhance long-term growth." This merger wasn't exactly what we had in mind when we penned that, but we think it's a bold move that will make the combined bank more competitive with some of the larger names in the space. The market liked the deal as well, with BBT advancing more than 3% in the two days since the news broke. We are happy to maintain our BBT position, while we await regulatory review and combined financials (though we don't see any huge problems at face value, given that neither bank is levering up to make this deal happen and STI was also very undervalued in our proprietary valuation algorithm). Our Target Price for BBT has been increased to $67.