Market Commentary Monday, March 25, 2019

March 25, 2019

EXECUTIVE SUMMARY

Ups & Downs – Not Easy to Explain the Daily Market Gyrations
Week in Review – Lousy Friday
European Econ News – Renewed Concerns About Global Growth
Negative Bund Yield – German 10-Year Bond Last Yielded Less than Zero in June 2016
Inverted Yield Curve – Stocks Have Performed Fine Previously
U.S. Econ News – LEI Suggests no Near-Term Recession
FOMC Meeting – Slow U.S. Growth Remain the Outlook; Wait-and-See on Rates
Interest Rates – Low Rates Make Stocks More, not Less, Attractive
Undervalued Laggards – 25 Stocks Marked Down Last Week
Stock Updates – BIIB, DSW, FDX, MU & WSM

Market Review

While nobody can predict with any certainty how stock prices might gyrate from day to day, the financial press must always find reasons to explain the daily fluctuations. Sometimes, the delay in penning rationale for the prior day's market move and the publication of the morning papers can make for interesting reading.

For example, the *Associated Press* described Thursday's handsome rally that sent the S&P 500 to its highest closing level since the Bear Market bottom on December 24, 2018, as follows: "The latest gains erased the market's modest losses from a day earlier, when the Federal Reserve said it expected the U.S. economy to slow down and that it no longer expected to raise interest rates this year. While investors appeared to be circumspect about the central bank's economic outlook, any concerns seemed to take a back seat Thursday to the likelihood that the Fed will hold off on raising interest rates."

Not an unreasonable assessment, and the AP accentuated its take with a quote from a market strategist, "Overall, stocks are rallying because interest rates have gone down and we know that the Fed is going to continue to be the market's friend. There's absolutely no reason not to be in stocks when you have an incredibly dovish Fed that going to support asset prices."

Of course, despite proclamations from the supposed experts, nothing is ever absolute or definitive when it comes to the equity markets. Indeed, traders quickly found several reasons not to be in stocks on Friday, with the Dow Jones Industrial Average skidding 1.8% (460 points), the S&P 500 sinking 1.9%, the Nasdaq Composite index tumbling 2.5% and the S&P 600 SmallCap index plunging 3.6%. No doubt, the sudden reversal provided yet another reminder that volatility is hardly an unusual part of the investment process.

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THE PRUDENT SPECULATOR
Volatility is Normal: Value/Divs Win 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%	66.4%	572	38	2.4	12/24/2018	3/21/2019
15.0%	66.1%	556	44	2.1	12/24/2018	3/21/2019
12.5%	43.8%	331	71	1.3	12/24/2018	3/21/2019
10.0%	34.8%	247	105	0.9	12/24/2018	3/21/2019
7.5%	23.4%	147	154	0.6	12/24/2018	3/21/2019
5.0%	14.7%	72	298	0.3	12/24/2018	3/21/2019

Declining Markets

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

From 02.20.28 through 3.21.19. 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: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.9%
Growth Stocks	9.3%	21.4%
Dividend Paying Stocks	10.4%	18.0%
Non-Dividend Paying Stocks	8.7%	29.5%
Long-Term Corporate Bonds	5.9%	7.5%
Long-Term Gov't Bonds	5.4%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 12.31.18. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

The primary catalyst for the retreat on Friday was weak readings on the health of the service and manufacturing sectors in Europe, with the overall IHS Markit Purchasing Managers' Index (PMI) for Germany falling to 51.5, its lowest tally since June 2013. The concern about the strength of the biggest economy on the Continent sent yields on German 10-Year government bonds (aka bunds) below zero for the first time since 2016,…

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THE PRUDENT SPECULATOR
Low Bond Yields Are Not Bad for Stocks

We remain perplexed why so many think that the "smart money" is in the bond market, especially when 10-Year Bund investors in Germany are actually willing to accept a negative return on their investment. Yes, some view super-low European bond yields as a global recession harbinger, but the S&P 500 is up some 35%, not counting dividends, since the last time the Bund yield went below zero in June 2016.

…and rekindled recession fears here at home when the yield curve inverted with the yield on the 3-month U.S. Treasury at 2.46% modestly exceeding the 2.44% yield on the 10-year U.S. Treasury. While such an event has been an eventual precursor to the last seven declines in real U.S. GDP, history shows that it is not a reason that a long-term-oriented investor would want to abandon stocks,..

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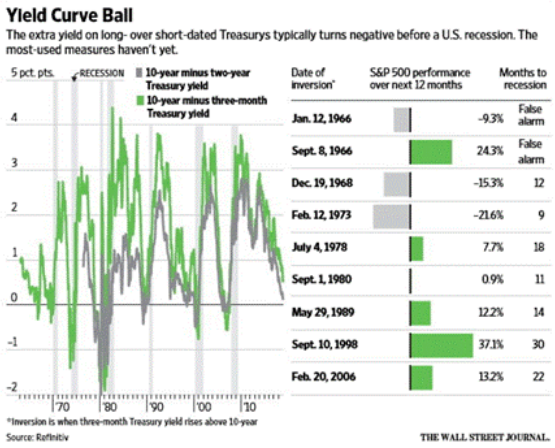
THE PRUDENT SPECULATOR
Myth Busting - Yield Curve Inversions

Pundits are again shouting dire warnings that a recession is imminent as the U.S. Treasury yield curve has inverted, with the San Francisco Fed concluding that the spread between the ten-year and three-month yields has the best predictive power of economic contraction. While the spread on 3.22.19 was -1 basis points (i.e. an inversion), stocks have performed just fine, on average, after previous 10Y/3M inversions.



S&P 500 Total Return Post 10-Year/3-Month Yield-Curve Inversion

Inversion Date	1 Year S&P 500 TR	3 Year S&P 500 TR	5 Year S&P 500 TR	10 Year S&P 500 TR	To Present S&P 500 TR
1/12/1966	-6.8%	19.3%	17.6%	46.2%	13869%
9/8/1966	28.4%	34.2%	58.3%	97.0%	16747%
12/19/1968	-11.8%	4.3%	4.8%	30.6%	11036%
2/12/1973	-19.1%	-2.6%	-4.4%	105.0%	8818%
7/4/1978	13.3%	58.4%	131.5%	352.6%	8540%
9/1/1980	5.6%	56.7%	96.8%	300.3%	5870%
5/29/1989	16.0%	42.6%	66.2%	423.5%	1460%
9/10/1998	39.8%	15.7%	10.7%	48.2%	300%
1/20/2006	15.5%	-36.2%	16.0%	84.3%	172%
S&P Total Return	**9.0%**	**21.4%**	**44.2%**	**165.3%**	**7424%**

As of 3.22.19. Source: Kovitz Investment Group using data from Bloomberg and Refinitiv via The Wall Street Journal

…especially as those who have studied the relationship in depth argue that the inversion needs to last at least three months and not just for one day, while one has to think that Federal Reserve buying of Treasuries and mortgage-backed securities has artificially suppressed long-term interest rates. On that last point, per Fed data as of March 20, 2019, the Fed balance sheet holds $2.175 trillion of U.S. Treasuries and $1.60 trillion of mortgage-backed securities, with $2.14 trillion of the combined amount having maturities of at least 10 years and $325 billion having maturities between five and 10 years. Contrast those massive numbers with the $90 billion held in Treasuries with maturities of less than three months.

And, for those convinced that a recession is around the corner, there is no way of knowing how long it might be until an economic contraction occurs. More importantly, equities, especially those with a Value tilt, have performed well, on average, ahead of and following a recession,…

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THE PRUDENT SPECULATOR
We Invest in Stocks and Not in Economies

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 14 prior instances of actual negative economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns
S&P 500 and Fama/French Value Performance

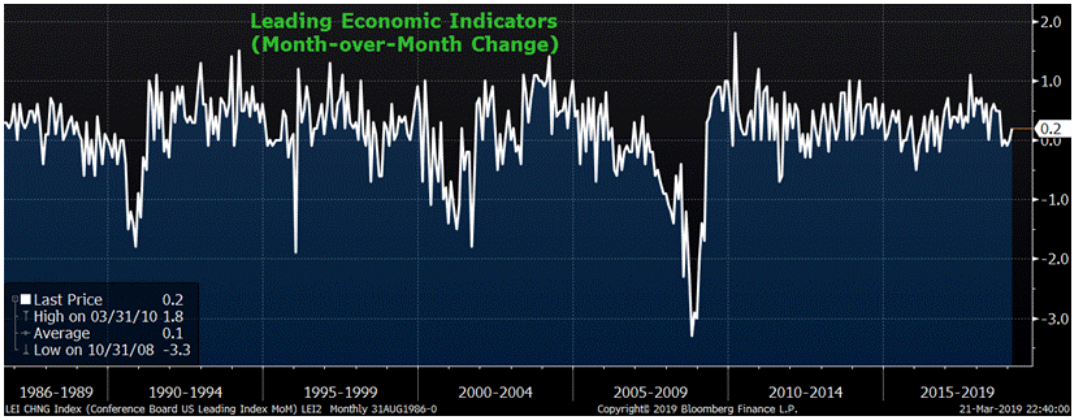
Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	190733%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	354480%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	255472%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	207499%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	85713%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	39339%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	29616%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	12727%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	10746%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	6723%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.4%	408.6%	5411%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.0%	424.9%	1301%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	238%
9.0%	-5.7%	December 2007	-40.4%	-36.2%	-13.0%	-6.6%	5.3%	5.7%	117.4%	119.5%	132%
7.4%	**10.6%**	**Averages**	**-0.1%**	**2.3%**	**27.9%**	**44.4%**	**53.0%**	**85.8%**	**216.4%**	**338.2%**	**85723%**

As of 3.22.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

…while one of the key forward-looking economic measures announced last week actually came in better than expected and above the historical average.

No Signs of an Imminent Recession

The forward-looking index of Leading Economic Indicators rebounded 0.2% last month, with the Conference Board stating, "The U.S. LEI increased in February for the first time in five months…Improvement was driven by accommodative financial conditions and a rebound in stock prices, which more than offset weaknesses in the labor market components." The economy is likely to slow in the latter half of 2019, but an above-average gain in the LEI is hardly a recession harbinger.



More importantly, perhaps, Jerome Powell and his colleagues at the Federal Reserve do not think that a recession is in the cards, though the latest FOMC projections released last week saw a downgrade in U.S. GDP growth projections.

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THE PRUDENT SPECULATOR
No Recession in the Fed Forecast

The Fed left its longer-run GDP growth projection at 1.9%, though its outlook for 2019 growth (yes, growth!) decreased to 2.1%, down from 2.3%. The long-run forecast for the Federal Funds rate remains at 2.8%.

Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, March 2019
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]			
	2019	2020	2021	Longer run	2019	2020	2021	Longer run	2019	2020	2021	Longer run
Change in real GDP	2.1	1.9	1.8	1.9	1.9 – 2.2	1.8 – 2.0	1.7 – 2.0	1.8 – 2.0	1.6 – 2.4	1.7 – 2.2	1.5 – 2.2	1.7 – 2.2
December projection	2.3	2.0	1.8	1.9	2.3 – 2.5	1.8 – 2.0	1.5 – 2.0	1.8 – 2.0	2.0 – 2.7	1.5 – 2.2	1.4 – 2.1	1.7 – 2.2
Unemployment rate	3.7	3.8	3.9	4.3	3.6 – 3.8	3.6 – 3.9	3.7 – 4.1	4.1 – 4.5	3.5 – 4.0	3.4 – 4.1	3.4 – 4.2	4.0 – 4.6
December projection	3.5	3.6	3.8	4.4	3.5 – 3.7	3.5 – 3.8	3.6 – 3.9	4.2 – 4.5	3.4 – 4.0	3.4 – 4.3	3.4 – 4.2	4.0 – 4.6
PCE inflation	1.8	2.0	2.0	2.0	1.8 – 1.9	2.0 – 2.1	2.0 – 2.1	2.0	1.6 – 2.1	1.9 – 2.2	2.0 – 2.2	2.0
December projection	1.9	2.1	2.1	2.0	1.8 – 2.1	2.0 – 2.1	2.0 – 2.1	2.0	1.8 – 2.2	2.0 – 2.2	2.0 – 2.3	2.0
Core PCE inflation[4]	2.0	2.0	2.0		1.9 – 2.0	2.0 – 2.1	2.0 – 2.1		1.8 – 2.2	1.8 – 2.2	1.9 – 2.2	
December projection	2.0	2.0	2.0		2.0 – 2.1	2.0 – 2.1	2.0 – 2.1		1.9 – 2.2	2.0 – 2.2	2.0 – 2.3	
Memo: Projected appropriate policy path												
Federal funds rate	2.4	2.6	2.6	2.8	2.4 – 2.6	2.4 – 2.9	2.4 – 2.9	2.5 – 3.0	2.4 – 2.9	2.4 – 3.4	2.4 – 3.6	2.5 – 3.5
December projection	2.9	3.1	3.1	2.8	2.6 – 3.1	2.9 – 3.4	2.6 – 3.1	2.5 – 3.0	2.4 – 3.1	2.4 – 3.6	2.4 – 3.6	2.5 – 3.5

Source: Federal Reserve, March 20, 2019

Mr. Powell commented on March 20, "The U.S. economy is in a good place, and we will continue to use our monetary policy tools to help keep it there. The jobs market is strong, showing healthier wage gains and prompting many people to join or remain in the workforce. The unemployment rate is near historic lows, and inflation remains near our 2 percent goal. We continue to expect that the American economy will grow at a solid pace in 2019, although likely slower than the very strong pace of 2018. We believe that our current policy stance is appropriate."

Of course, the Fed Chair was quick to add, "Data arriving since September suggest that growth is slowing somewhat more than expected. Financial conditions tightened considerably over the fourth quarter. While conditions have eased since then, they remain less supportive of growth than during most of 2018. Growth has slowed in some foreign economies, notably in Europe and China. While the U.S. economy showed little evidence of slowdown through the end of 2018, the limited data we have so far this year have been somewhat more mixed. Unusually strong payroll job growth in January was followed by little growth at all in February. Smoothing through these variations, average monthly job growth appears to have stepped down from last year's strong pace, but job gains remain well above the pace necessary to provide jobs for new labor force entrants. Many other labor market indicators continue to show strength. Weak retail sales data for December bounced back considerably in January, but on balance seem to point to somewhat slower growth in consumer spending. Business fixed investment also appears to be growing at a

slower pace than last year. Inflation has been muted, and some indicators of longer-term inflation expectations remain at the low end of their ranges in recent years. Along with these developments, unresolved policy issues such as Brexit and the ongoing trade negotiations pose some risks to the outlook."

Taken together, the Fed is continuing to take a "wait-and-see approach" to any additional monetary changes, with the FOMC projections now suggesting that no additional rate hikes are likely this year,…

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THE PRUDENT SPECULATOR
FOMC Fed Funds Rate Targets: Mar 2019

What a difference a quarter can make as it was just three months ago that futures market players were betting that there was a 34.5% chance of at least one hike in the Fed Funds rate by Jan 2020 and a 12.6% chance of a cut. Today, the odds of a hike are 0.0% vs. 69.1% for a cut.

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

Midpoint of Target Range	2019	2020	2021	Longer Run
4.000				
3.875				
3.750				
3.625			1	
3.500				1
3.375		1	1	
3.250				1
3.125		2	1	
3.000				4
2.875	2	3	4	
2.750				4
2.625	4	4	5	
2.500				6
2.375	11	7	5	
2.250				
2.125				
2.000				

Source: Federal Reserve, March 20, 2019

Export — World Interest Rate Probability
United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.41
1) Overview — 2) Future Implied Probability
Current Implied Probabilities — 3) Add/Remove Rates
Dates: Meeting / Calculation — Calculated 03/22/2019 — Based on rate 2.25-2.50

Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	Fwd Rate
05/01/2019	0.0%	4.1%	0.0%	0.0%	0.0%	4.1%	95.9%	2.40
06/19/2019	0.0%	18.4%	0.0%	0.0%	0.6%	17.8%	81.6%	2.36
07/31/2019	0.0%	25.7%	0.0%	0.1%	2.2%	23.5%	74.3%	2.34
09/18/2019	0.0%	43.8%	0.0%	0.6%	7.4%	35.9%	56.2%	2.28
10/30/2019	0.0%	49.2%	0.1%	1.2%	10.1%	37.8%	50.8%	2.25
12/11/2019	0.0%	60.8%	0.3%	3.2%	16.4%	40.8%	39.2%	2.20
01/29/2020	0.0%	69.1%	0.9%	6.0%	21.6%	40.4%	30.9%	2.14

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

Source: Bloomberg

…which means that the Fed is likely to remain very friendly,…

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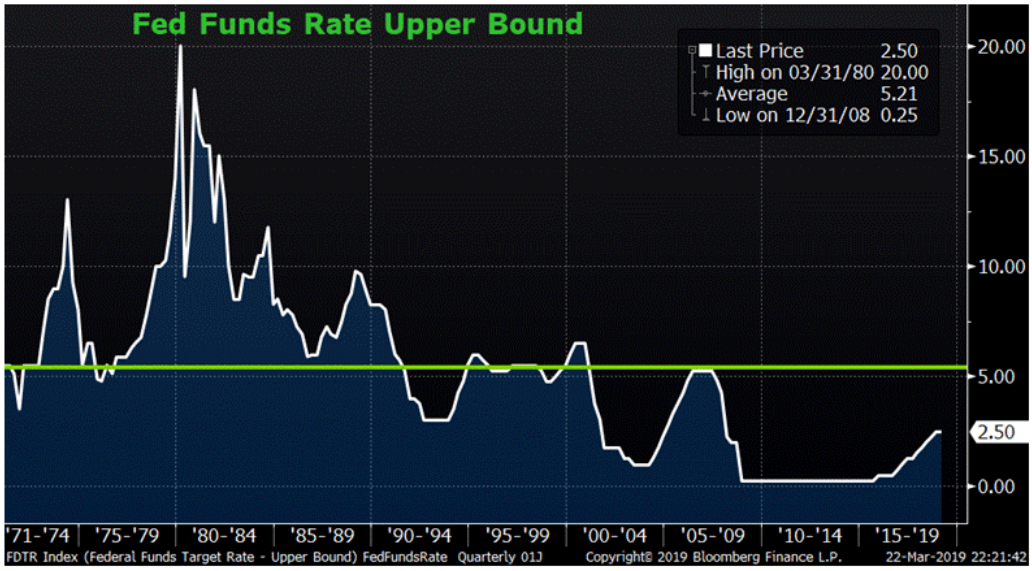
THE PRUDENT SPECULATOR
Fed is Still Accommodative

While concerns just a few months back that Jerome Powell & Co. were not "dovish" enough have vanished, it is interesting that the Fed's long-run target for the Fed Funds rate remains at 2.8%, the same as in Dec. 2018 and a figure that is well below the long-term 5.21% average.



…with historically low interest rates continuing to serve as a strong support for stocks,…

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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 5.41%.

…especially when one considers the odds of generating a better than 2.44% (the current yield on the 10-year Treasury) rate of return in equities over the next decade.

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 10-year U.S. Treasury today, with its 2.44% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.44%	Count <=2.44%	Percent >2.44%
1 Month	679	420	61.8%
3 Months	724	373	66.0%
6 Months	749	345	68.5%
1 Year	778	310	71.5%
2 Year	863	213	80.2%
3 Year	904	160	85.0%
5 Year	901	139	86.6%
7 Year	952	64	93.7%
10 Year	939	41	95.8%
15 Year	911	9	99.0%
20 Year	860	0	100.0%

DIVIDEND PAYERS

	Count >2.44%	Count <=2.44%	Percent >2.44%
1 Month	672	427	61.1%
3 Months	717	380	65.4%
6 Months	757	337	69.2%
1 Year	783	305	72.0%
2 Year	874	202	81.2%
3 Year	870	194	81.8%
5 Year	900	140	86.5%
7 Year	928	88	91.3%
10 Year	919	61	93.8%
15 Year	892	28	97.0%
20 Year	860	0	100.0%

From 07.31.27 through 01.31.19. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

And, we note that the income generated from stocks is likely to grow over the next decade,…

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THE PRUDENT SPECULATOR
Dividends Have Grown Over Time

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2019 (as of 3.21.19)	116	2	4	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3

Source: Standard & Poor's.

S&P 500 DIVIDENDS PER SHARE	
2020 (Est.)	$61.37
2019 (Est.)	$57.34
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88

Source: Bloomberg. As of 3.22.19

…especially as corporate profit growth should remain solid.

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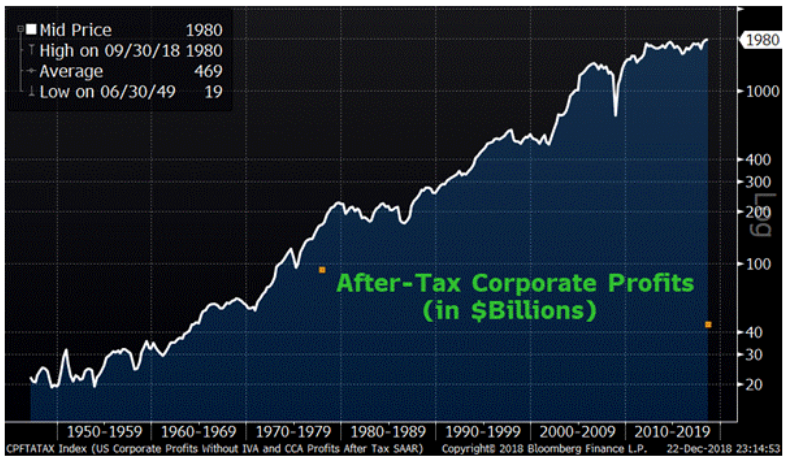
THE PRUDENT SPECULATOR
Growing Black Ink for Corporate America

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.



Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$49.79	$186.40
9/30/2020	$48.11	$181.05
6/30/2020	$46.01	$176.13
3/31/2020	$42.49	$171.07
12/31/2019	$44.44	$165.50
9/30/2019	$43.19	$156.09
6/30/2019	$40.95	$154.28
3/31/2019	$36.92	$151.98
12/31/2018	$35.03	$151.60
ACTUAL		
9/30/2018	$41.38	$150.42
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

Source: Standard & Poor's. As of 3.21.19

To be sure, none of the above provides any assurance that stock prices will rise in the near term, and we note that Friday's selloff looks set to continue in today's trading, but we like what history (on average) has to say should the Fed be wrong in its economic predictions and a recession occur. Certainly, the Great Recession that began December 2007 is still relatively fresh in many minds, but the weight of the evidence suggests that those who share our long-term time horizon would want to stay invested before, during and after an economic contraction.

Finally, though we have thus far had only a modest pullback from the recent highs, last week's setback hit some stocks harder than others, with those names naturally moving toward the top of our shopping list for those looking to put new money to work.

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THE PRUDENT SPECULATOR
Fed Week March 2019 Cellar Dwellers

Laggards Fed-Week March 2019

Symbol	Common Stock	TR Since 3.15.19	3.22.19 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
BIIB	Biogen	-34.3	216.71	424.18	Pharma, Biotech	8.3	3.2	10.1	6.3	12.2	141%	0.0%	42,629
DSW	DSW Inc	-20.0	20.32	31.81	Retailing	12.3	0.5	2.3	7.2	8.2	23%	4.9%	1,633
KEY	KeyCorp	-13.9	14.97	26.06	Banks	8.5	nmf	1.3	nmf	nmf	nmf	4.5%	15,102
FITB	Fifth Third Bancorp	-13.1	24.62	38.32	Banks	9.7	nmf	1.3	nmf	nmf	nmf	3.6%	15,969
CMA	Comerica	-12.4	72.07	105.22	Banks	9.9	nmf	1.7	nmf	nmf	nmf	3.7%	11,381
BHF	Brighthouse Financial	-10.2	35.54	77.84	Insurance	4.8	nmf	0.3	nmf	nmf	nmf	0.0%	4,143
STI	SunTrust Banks	-10.0	57.40	80.86	Banks	10.1	nmf	1.6	nmf	nmf	nmf	3.5%	25,443
BBT	BB&T Corp	-9.8	45.09	65.84	Banks	11.1	nmf	2.1	nmf	nmf	nmf	3.6%	34,441
ACA	Arcosa Inc	-9.1	29.04	40.87	Capital Goods	nmf	nmf	1.3	nmf	nmf	17%	0.7%	1,412
PNC	PNC Financial Services	-8.2	119.18	164.04	Banks	11.2	nmf	1.6	nmf	nmf	nmf	3.2%	54,062
BAC	Bank of America	-7.8	27.01	39.32	Banks	10.3	nmf	1.5	nmf	nmf	nmf	2.2%	260,348
ONB	Old National Bancorp	-7.8	15.74	22.02	Banks	12.2	nmf	1.8	nmf	nmf	nmf	3.3%	2,762
MET	MetLife	-7.8	41.79	73.24	Insurance	7.8	nmf	1.0	nmf	nmf	nmf	4.0%	40,004
TPC	Tutor Perini	-7.5	17.12	27.97	Capital Goods	8.9	0.2	0.8	6.2	-6.5	65%	0.0%	858
MOS	Mosaic Co	-6.5	26.85	49.97	Materials	12.7	1.1	1.2	7.9	4.5	52%	0.4%	10,350
C	Citigroup	-6.5	60.98	103.93	Banks	9.2	nmf	0.9	nmf	nmf	nmf	3.0%	142,723
JPM	JPMorgan Chase	-6.4	99.76	136.23	Banks	11.1	nmf	1.8	nmf	nmf	nmf	3.2%	326,638
PRU	Prudential Financial	-6.3	89.96	135.94	Insurance	7.7	nmf	0.8	nmf	nmf	nmf	4.4%	36,794
ING	ING Groep NV	-6.1	11.82	18.92	Banks	7.5	nmf	0.8	nmf	nmf	nmf	5.4%	46,000
DIS	Walt Disney	-5.9	108.23	148.03	Media & Entertainment	15.4	3.3	15.8	12.4	5.9	140%	1.6%	194,557
TRN	Trinity Industries	-5.8	20.96	32.10	Capital Goods	14.5	0.8	1.4	8.0	nmf	201%	3.2%	2,795
FLR	Fluor Corp	-5.7	35.59	56.83	Capital Goods	13.2	0.3	2.2	6.5	-1.0	73%	2.4%	4,969
NTR	Nutrien Ltd	-5.7	50.47	66.83	Materials	19.1	1.6	2.8	18.6	nmf	70%	3.4%	30,472
COF	Capital One Financial	-5.1	80.00	120.26	Diversified Financials	7.4	nmf	1.2	nmf	nmf	nmf	2.0%	37,548
AVX	AVX Corp	-5.0	17.21	23.86	Technology Hardware	12.4	1.6	1.5	5.4	3.5	0%	2.7%	2,905

As of 3.22.19. nmf=Not meaningful. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

Stock Updates

Keeping in mind that all stocks are rated as "Buy" until such time as they are a "Sell," 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 five of our companies that had news last week that was of sufficient importance to trigger a review of their respective Target Prices.

Shares of **Biogen** (BIIB – $216.71) fell more than 34% last week following the news that both phase 3 trials, Engage and Emerge, of Alzheimer's drug aducanumab, are being discontinued due to futility. While there have been a number of struggles in this area by Biogen and competitors, some past strong data had many investors optimistic about the future potential of the Alzheimer's treatment.

"This disappointing news confirms the complexity of treating Alzheimer's disease and the need to further advance knowledge in neuroscience. We are incredibly grateful to all the Alzheimer's disease patients, their families and the investigators who participated in the trials and contributed greatly to this research," said CEO Michel Vounatsos. "Biogen's history has been based on pioneering innovation, learning from successes and setbacks. Driven by our steadfast commitment to patients and our strong business foundation, we will continue advancing our

pipeline of potential therapies in Alzheimer's disease and innovative medicines for patients suffering from diseases of high unmet need."

While the news is quite negative and results in material lost potential future revenues and profits, we think the sell-off was well overdone through a long-term investment lens. Yes, we understand that Biogen is facing looming pressure from generics in the next few years for its drug Tecfidera and potential competition from Novartis for Spinraza, but we also believe its pipeline isn't a one-trick pony, and BIIB's neurology portfolio and pipeline deserve some credit. Beyond the Alzheimer's setback, the firm's pipeline has seen progress in multiple sclerosis, pain, Parkinson's and amyotrophic lateral sclerosis. We also note that Biogen has the financial ability to undertake additive M&A should leadership deem it desired or necessary.

We continue to be pleased to see Biogen turn in strong free cash flow and we note that its cash and marketable securities totaled $6.6 billion at the end of Q4, which provides plenty of firepower to grow via acquisition or continue to heavily invest in its drug pipeline. No doubt, the analyst community has turned on BIIB, with one Wall Street firm slashing its Target Price from $400 to $257, even as its EPS estimates for the next three years dropped by an average of only five cents per annum to $28.52, $28.90 and $28.74 for 2019, 2020 and 2021, respectively. True, Biogen may not merit as rich a multiple after the Alzheimer's failure, but the shares now trade for less than 8 times NTM earnings estimates. We have lowered our Target Price to $424, but we think the stock is very undervalued.

Shares of footwear retailer **DSW Inc.** (DSW – $20.32) fell 20% last week after reporting Q4 financials and a forward outlook that disappointed. Additionally, the company announced a three-year strategic plan, including a name change. On the quarterly results front, DSW said that it generated revenue of $843.4 million, which came in slightly above expectations of $840.8 million, however the bottom-line missed consensus analyst estimates by a wide margin. While forecasts called for profit of $0.03 per share, DSW reported a loss of $0.07. Management blamed margin pressures and additional integration costs related to its Camuto Group purchase, but argued that they were short-term in nature.

DSW CEO Roger Rawlins stated, "Fiscal 2018 was one of the best years in our company's history from a comparable sales and earnings growth standpoint. We crossed the $3 billion revenue threshold for the first time and drove a +6% increase in comparable sales as we strengthened connections with our customers. We built a compelling product assortment, including the expansion of DSW Kids, a differentiated service offering with our W Nail Bar partnership, and the relaunch of our award-winning loyalty program. At the same time, we strategically positioned our company to grow share and enhance profitability through transformative acquisitions, creating an infrastructure that positions us to be a significant force in the footwear industry for years to come."

The company also announced a three-year strategic priorities plan designed to leverage its unique business model to unlock value and deliver 2021 adjusted earnings per share in the range of $2.65 to $2.75. Management also said it was targeting a revenue compound annual growth rate of 5.5% during the period, consistent low single-digit comparable store sales growth, gross margin expansion of 240 basis points and operating income growth of 13% at DSW, 19% at the

Shoe Company and $26 million at Camuto Group. Additionally, the firm is targeting $800 million in cumulative cash flow over the next three years. Finally, the company announced that it was changing its corporate name to Designer Brands Inc., with a ticker symbol change from DSW to DBI effective April 2, 2019.

Mr. Rawlins added, "The long-term plan we announced today represents a new chapter for our company as we take greater control of our destiny in today's changing retail landscape. Over the next three years and beyond, we will leverage our integrated enterprise to continue delivering differentiated products and experiences while significantly expanding our gross margin by bringing the production of our private brands in-house through our industry-leading Camuto Group and increasing the sales penetration of all of our produced brands across our retail channels. We look forward to continuing to drive innovation and increase market share by delivering positive comp sales while also growing complementary categories and markets…With DSW's world-class omni-channel capabilities and loyal customer base, combined with Camuto Group's leading design and sourcing capabilities and The Shoe Company's powerful last-mile solution, Designer Brands has a strong platform to grow and lead the footwear market."

Judging by the extreme price action in the stock last week, investors were not happy with the developments, especially as DSW had enjoyed favorable reactions to earnings in recent quarters. While we think the shellacking was far too severe, as we like the work management has done to transform the company and we think that investors may not be considering the pickup in business that is available to DSW now that competitor Payless has gone bankrupt and is shuttering 2,500 stores. That said, we haven't forgotten that brick-and-mortar retail continues to face stiff operating headwinds from numerous directions, but we are still attracted to the company's solid balance sheet and improvements in store traffic and ticket size, as well as the investment in children's footwear and its successful loyalty program. With the recent pullback, the dividend yield has risen to 4.9%. Shares now trade at less than 11 times NTM adjusted earnings expectations and our Target Price has been trimmed to $32.

Air freight and logistics leader **FedEx** (FDX – $173.99) posted earnings per share of $3.03, versus the $3.12 estimate, in fiscal Q3 2019. FDX had sales of $17.0 billion (vs. $17.7 billion est.). The earnings miss and second FY guidance whack in as many quarters pushed shares down more than 4%. FDX expects to earn $15.10 to $15.90 per share in FY 2019, compared with December's estimate of $15.50 to $16.60.

Chairman Fred Smith commented, "Quarter three was a challenging quarter. Our FY 2019 plan envisioned top line revenue growth of approximately $6 billion. Mostly due to lower economic growth in international regions, we expect to end the year with about $4.5 billion in increased revenues. The macroeconomic environment lately has presented challenges relative to our prior expectations, particularly at FedEx Express. We're quite optimistic we'll improve results in FY 2020 that begins June 1. We're very enthused about the FedEx SameDay Bot developed with DEKA Research & Development that we unveiled on February 26. While we will have much more to say about this technology, we believe the economics of the FedEx bot are compelling, that regulatory approvals are highly likely over time, and we will enter a substantial new market segment that is a logical extension of FedEx capabilities."

COO Raj Subramaniam said, "Looking beyond fiscal 2020, the TNT integration has also uncovered numerous transformation and optimization opportunities that we will pursue. These include upgrades to financial systems, HR platforms, and simplification and standardization of transactional work in our back-office functions. While these activities will require additional investment, potential financial benefits are expected to be significant. I want to reiterate that the value that TNT brings to us around the world is very clear. In Europe, we have an unmatched footprint and capabilities to deliver parcels and freight that encompasses more than 500 stations and 55,000 weekly road trips across 45 countries. In addition to the TNT integration, there continues to be significant media and investor interest on the potential for Amazon to disrupt the transportation industry. We have been clear that this is not a threat to our business because Amazon represents less than 1.3% of our total revenue, which is substantially lower than what our largest competitor carries nor is Amazon a threat to our future growth."

"There's an intense media focus on the 'last mile,' but very few people think about the first few thousand miles. When you see a FedEx truck on the road, it not only is carrying those local last mile shipments, but also the other shipments that are originated from all parts of the globe, creating density for last mile delivery and higher revenue per stop. This is an inherent advantage for players who have a global network in place. Any new entrant in this space will not have this benefit; and also not have any particular advantage on the input costs," Mr. Subramaniam concluded in his prepared remarks.

We also have mused on the "last mile" puzzle, both internally and through our Market Commentaries in the past, and we think that Mr. Subramaniam's comments are fair particularly related to the threat of new entrants. But while we believe that the last mile can be less profitable than the first thousand, we do not think it is necessarily unprofitable. And FDX has a distinct advantage in being able to price its delivery services taking the last mile costs into account, unlike the fixed-rate Postal Service. We think that's an important advantage. We like FedEx's strong balance sheet, modest dividend yield and position as an industry leader. FDX trades at a reasonable 10.7 times NTM earnings and EPS expectations for the next three fiscal years presently stand at $15.44, $17.04 and $19.18, respectively. Our Target Price for FDX is now $302.

Memory maker **Micron Technology** (MU – $41.62) earned $1.71 per share in fiscal Q2 2019 (vs. $1.65 est.). MU had sales of $5.8 billion, inline the with the consensus estimate. Shares climbed 9.6% following the announcement, but Friday's sell-off resulted in the stock only gaining 5.3% for the week.

CEO Sanjay Mehrotra said, "Micron executed well in the second quarter, delivering solid results and healthy levels of profitability and free cash flow despite a challenging industry environment. We continued to strengthen our balance sheet in the quarter by increasing our cash position and total liquidity. Although we expect industry headwinds in the near term, we continue to grow and diversify our product portfolio, improve our cost competitiveness, and lay the foundation to emerge stronger both financially and operationally from this environment. We expect further progress on cost reduction this fiscal year including healthy year-over-year cost declines in both DRAM and NAND. In DRAM, our 1Y nanometer is yielding well and we expect to increase conversion to 1Y nanometer in the second half of fiscal 2019."

Mr. Mehrotra continued, “Since our last earnings call, DRAM pricing weakened more than expected. Our demand outlook for calendar 2019 has moderated, led by somewhat greater levels of customer inventory, weakening server demand at several enterprise OEM customers, and worse-than-expected CPU shortages. We believe macroeconomic uncertainty is also contributing to hesitation in buying behavior at some customers. However, we still expect DRAM bit shipments to begin increasing in our fiscal Q3, with demand growth strengthening in the second half of calendar 2019, as most customer inventories are likely to normalize by midyear. Based on our current view, we now estimate calendar 2019 DRAM bit demand growth from our customers to be in the low to mid-teens, with their end demand a few points above that. Further, we estimate industry supply bit growth is tracking to mid to high teens. Although fiscal Q2 pricing came in below our expectations, we are optimistic that demand elasticity and seasonal trends will support improving demand growth in the second half of the calendar year. We expect that calendar 2019 NAND bit demand growth is likely to be in the mid-30s percent range, with industry supply growing in the high-30s, and we are targeting our bit shipments to grow close to the growth rate of industry bit demand.”

CFO Dave Zisner added, “We expect revenue to be in the range of $4.8 billion, plus or minus $200 million; gross margin to be in the range of 37% to 40%; and operating expenses at approximately $785 million, plus or minus $25 million. Based on a share count of approximately 1.14 billion fully diluted shares, we expect EPS to be $0.85, plus or minus $0.10.”

MU finished the quarter with approximately $3 billion in net cash and $12 billion of total liquidity. Analysts expect the company to earn $6.40 in fiscal 2019 (down from $10.14 on Dec. 3) and $4.74 in 2020 (down from $9.23 on Dec. 3). The past year has been a rough ride for MU shareholders, but we think that a strengthening demand environment in the back half of the year and growing adoption of solid-state memory components will propel the company forward. We appreciate that memory and data storage have been historically volatile businesses, but we believe the future remains bright as ever, while we like that the stock is trading for less than 10 times the arguably trough 2020 EPS estimate and that there is still a massive amount remaining on the $10 billion stock repurchase authorization announced last year. Our Target Price for MU has been bumped up to $70.

Luxury home goods retailer **Williams-Sonoma** (WSM – $57.00) posted earnings per share of $2.10, versus the $1.96 estimate, in fiscal Q4 2019. WSM had sales of $1.84 billion, versus the $1.80 billion estimate. Shares climbed 4.2% following the announcement, propelled by the company’s increased year-over-year EPS and revenue forecasts. WSM expects to earn $4.50 to $4.70 per share in 2020 (vs. $4.46 in 2019) on revenue of $5.67 billion to $5.84 billion (vs. $5.67 billion in 2019).

CEO Laura Alber commented, “We outperformed revenue and EPS expectations while making important investments in our business that sets us up for accelerated long-term growth. For [calendar year] 2019 and beyond, our goal is to maximize growth and maintain high profitability, and we have several substantial growth engines that will be aggressively prioritizing, including West Elm, our newly launched business-to-business offering, our emerging brands Williams-Sonoma Home, Rejuvenation and Mark & Graham, as well as growth in our largest brand Pottery Barn and our name sake brand Williams-Sonoma. We will also continue to improve the

customer experience through technology innovation and supply chain optimization. We believe, superior customer service is oxygen for growth. We've built over time a vertically integrated supply chain and a unique platform to launch in scale new brands and businesses. These are unparallel advantages, which will enable us to deliver mid to high single-digit revenue growth and margin stability for the long term."

Ms. Alber offered comments on WSM's three growth engines, "First, we believe West Elm is our biggest growth opportunity, and we are getting even more aggressive. We believe we can grow this brand to almost $3 billion in global revenues within the next five years. Customers continue to respond to the brand's aesthetics, scale and price points domestically and abroad, reinforcing West Elm's potential to capture significantly more share. Second, we are launching a new business division called Williams-Sonoma Inc., business-to-business. We believe, we have the potential to drive $2 billion in annual revenues with this nascent growth opportunity. The business-to-business market is $80 billion and we are uniquely positioned to gain share given our unique platform and product differentiation. Our third growth engine is emerging brands, led by Williams-Sonoma Home. Sustainable luxury home furnishing is another market where we believe we can take substantially more share."

Ms. Alber concluded, "As we look to 2019 and beyond, we are at an exciting juncture. We've made the important investments in our business and now we have the foundation and the roadmap to drive long-term accelerated growth. We are passionate about the business we are in. Serving our customers with shared values of quality, safety and sustainability and we are relentless in maximizing growth and maintaining high profitability."

While shares of WSM have bounced nicely off the Christmas Eve low, we think that WSM remains a compelling value proposition (with metrics like 12.4 times forward P/E ratio, 3.4% yield, which was just increased, and 0.8 times P/B ratio) with strong growth prospects. True, strong competition from Amazon, Wayfair and **Target** (TGT – $78.32) has the potential to put pressure on margins, but they aren't new risks to WSM's business model, and we think that exceptional customer service is a substantial differentiator. We continue to smile upon the investments in technology, collaborations with other brands and the sizable online presence. Our Target Price for WSM has been hiked to $84.