Market Commentary Monday, March 11, 2019

March 11, 2019

EXECUTIVE SUMMARY

Week in Review – Stocks Retreat
Sentiment – Had been Very Bullish…Just in Time for the Selloff
Financial Crisis Bottom – Fantastic 10 Years…for Those who Stayed the Course
Bull Market Three Months Old – Hulbert Knows of What He Speaks
Econ News – Draghi Speaks; ECB Lowers Europe GDP Growth Forecast
U.S. Economic Data – More Good News than Bad
Recessions and Equities – Not Projecting a Contraction, but Nice to Know that Value Has Done Well
Reasons for Optimism – Lower Interest Rates
25 Unloved Bargains – Weakest *TPS* Performers Since Bear Market End
Stock Updates – TGT, KSS, DPSGY, KR & MRVL

Market Review

The week just ended offered another reminder that stocks can move in both directions, as the major market averages all retreated more than 2% and the Russell 2000 SmallCap index skidded 4.23%. While volatility is not unusual, we might argue that the catalyst for the pullback was that in the week ending Feb. 28, 2019, the American Association of Individual Investors (AAII) saw the widest gap in Bulls (41.6%) compared to Bears (20.0%) since the 2018 market peak in the middle of September. Happily, this sentiment measure (amazing how many people seem to sell low and buy high) was less concerning in the latest week, though it is still in the upper half of all of the readings since the survey was first compiled back in 1987.

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AAII Sentiment – Contrarian Gauge

It is nice to see the big drop in the gap between optimists and pessimists in the latest sentiment survey from the American Association of Individual Investors. This is true as the week prior's Bulls less Bears number of 20.6% was the largest since the market apex last September. Of course, AAII data and subsequent equity performance suggest that while folks should be greedy when others are fearful, returns have been positive, on average, even with an "optimistic" AAII Bull-Bear Spread.

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.5											
BELOW	-54.00	8.48	821	0.24%	0.21%	1.18%	1.06%	3.24%	2.86%	6.53%	5.79%
ABOVE	8.49	62.86	801	0.17%	0.15%	0.50%	0.41%	2.03%	1.79%	4.59%	4.11%
Ten Groupings of 1616 Data Points											
1	-54.0	-14.3	161	0.34%	0.28%	1.30%	1.05%	4.08%	3.46%	8.15%	6.75%
2	-14.1	-7.0	164	0.40%	0.37%	1.27%	1.15%	3.97%	3.64%	7.15%	6.55%
3	-6.8	-0.9	162	0.30%	0.27%	1.67%	1.58%	3.31%	2.91%	6.83%	6.12%
4	-0.7	3.5	158	0.15%	0.13%	1.09%	1.01%	2.64%	2.33%	5.94%	5.51%
5	3.5	8.0	165	0.01%	-0.02%	0.62%	0.54%	2.50%	2.25%	4.97%	4.43%
6	8.1	12.5	157	0.15%	0.14%	0.46%	0.38%	1.71%	1.49%	4.66%	4.15%
7	12.5	17.0	174	0.14%	0.12%	0.88%	0.80%	2.75%	2.54%	5.68%	5.27%
8	17.0	22.6	151	0.27%	0.26%	0.64%	0.56%	2.07%	1.79%	5.58%	5.09%
9	22.6	30.0	165	0.11%	0.09%	0.29%	0.20%	2.13%	1.87%	4.59%	4.00%
10	30.5	62.9	165	0.20%	0.18%	0.20%	0.13%	1.24%	1.01%	2.25%	1.82%

From 07.31.87 through 2.28.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

Interestingly, and an illustration of why we view the metric as a contrarian indicator, the AAII Bull-Bear Spread fell to one of its lowest readings ever at -51.3 on Mar. 5, 2009, just as the equity markets were hitting their Financial Crisis lows. The 10-year anniversary of that Bear Market bottom also likely played a role in last week's stock market giveback, as the financial press was replete with stories reminding investors of that turbulent period. No doubt, it was a frightening time to be a stock market participant, and we did our best to provide constant perspective in order to keep our followers on the path to achieving their long-term financial objectives,…

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THE PRUDENT SPECULATOR
Buckingham Client Letter: March 2009

Certainly, we recognize that nearly all equity investors--whether they favor value, growth or something in between--have suffered an incredible beating on an order of magnitude that seemed unfathomable at the beginning of 2008. This brutal bear market has affected all industry groups and virtually every stock. In fact, over the past 12 months, the median total return for stocks in the broad-based S&P 1500 index is -46% while in the large-cap S&P 500 index, only 14 of the stocks are in the black. Given that I invest right alongside our clients, and I use a modest amount of leverage, I am well aware of the pain that folks have endured.

That being said, we do firmly believe that our patience in sticking with stocks during this turbulent period ultimately will be rewarded. The unprecedented level of stimulus being injected into the system, the anticipated resumption of growth in emerging and foreign markets and the $4 trillion (roughly half the $8 trillion value accorded U.S. stocks) sitting idly in money market funds are some of the reasons for our optimism. In addition, we know that historically equities have delivered real (after inflation) returns in the 6% to 7% range, based on 137 years of historical data provided by Wharton's Jeremy Siegel, with Morningstar data over the past eight decades showing actual returns in the 9% to 11% range. And yet, both series include the Great Depression, World War II, the Long Term Capital Management debacle, the Asian contagion, Iraq wars I and II and 9/11.

Though we recognize that many are not thrilled with the new Administration, we do wholeheartedly endorse President Obama's recent assertion (as well as Warren Buffett's) that stocks are attractive, provided one has a long-term time horizon. We've been saying as much for what seems like an eternity now and although our optimism has been humbled by the severity of the current downturn, **we are confident that five, ten and twenty years from now our memories of these trying times will be replaced by fond recollections of a period that created tremendous opportunities**. Though there may still be some room to drop, when the tide turns and the spring uncoils, the upside could be quick and substantial.

…as then as today, the secret to success in stocks is not to get scared out of them. Easier said than done, especially in the current environment where exchange-traded funds make it easy to buy and sell an entire portfolio with a click of a mouse or a tap of a smartphone, but the gains have been massive over the past decade for those who were able to stay the course.

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Market of Stocks – Long-Term Returns

Returns Race

10-Year Return %	15-Year Return %	20-Year Return %	Bloomberg Symbol	Index
Stock Indexes				
396.15	253.02	319.75	INDU Index	Dow Jones Industrial Average
546.39	339.40	274.60	CCMP Index	NASDAQ Composite Index
401.16	233.60	231.48	RIY Index	Russell 1000 Index
396.48	212.94	395.11	RTY Index	Russell 2000 Index
400.76	232.04	241.22	RAY Index	Russell 3000 Index
394.74	225.91	213.30	SPX Index	S&P 500 Index
452.73	278.09	183.87	RLG Index	Russell 1000 Growth Index
352.76	188.54	253.15	RLV Index	Russell 1000 Value Index
437.59	240.30	284.86	RUO Index	Russell 2000 Growth Index
354.98	182.65	487.69	RUJ Index	Russell 2000 Value Index
451.15	275.17	190.24	RAG Index	Russell 3000 Growth Index
353.15	188.15	266.17	RAV Index	Russell 3000 Value Index
434.35	275.09	202.66	SGX Index	S&P 500 Growth Index
353.04	175.76	208.69	SVX Index	S&P 500 Value Index
551.13	332.93	372.78	SPXPG Index	S&P 500 Pure Growth
782.40	289.39	425.37	SPXPV Index	S&P 500 Pure Value
179.14	122.59	145.71	MXEA Index	MSCI EAFE Index

Source: Bloomberg. As of 3.8.19

While Growth stocks have won the 10-year performance derby since the Financial Crisis low on 3.9.09, the decade prior, which included the bursting of the Tech Bubble, was an entirely different story. In fact, the advantage of Value from 3.9.99 to 3.9.09 was so massive that inexpensive stocks lead the 20-year returns race by a wide margin.

And, though many in the media are somehow convinced that it has been straight up, more or less, over the last ten years, with story after story proclaiming that the current Bull Market is now a decade old, there is another voice out there, aside from your Editor's, that knows better,…

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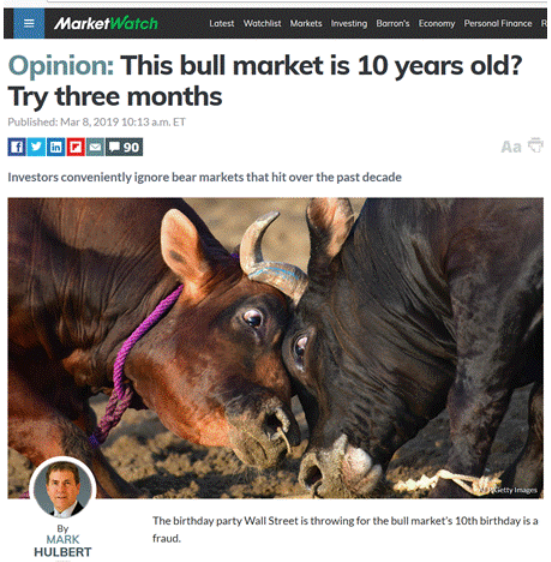
THE PRUDENT SPECULATOR
Bear Market '18: Hulbert Knows Best

While our attempts to set the record straight in regard to the 2018 Bear Market generally have fallen on deaf ears, at least as far as the press goes, one of the nation's finest financial journalists has seen the light.


MarketWatch Latest Watchlist Markets Investing Barron's Economy Personal Finance

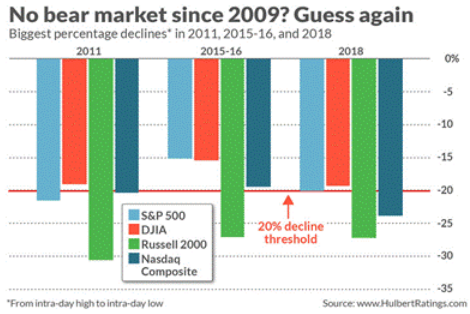
Opinion: This bull market is 10 years old? Try three months

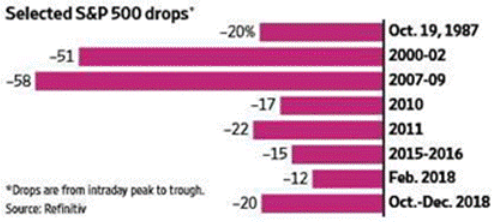
Published: Mar 8, 2019 10:13 a.m. ET

Investors conveniently ignore bear markets that hit over the past decade

The birthday party Wall Street is throwing for the bull market's 10th birthday is a fraud.

By MARK HULBERT





…and there is plenty of evidence to support Mark Hulbert's assertion that the current Bull is just three months old!

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THE PRUDENT SPECULATOR
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

To be sure, news on the economic front was the more likely culprit for the recent skid, as European Central Bank President Mario Draghi was not exactly upbeat in his assessment of the eurozone. Mr. Draghi commented on the latest ECB monetary policy moves, "We decided to keep the key ECB interest rates unchanged. We now expect them to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term."

He went on to say, "Euro area real GDP increased by 0.2%, quarter on quarter, in the fourth quarter of 2018, following growth of 0.1% in the third quarter. Incoming data have continued to be weak, in particular in the manufacturing sector, reflecting the slowdown in external demand compounded by some country and sector-specific factors. The impact of these factors is turning out to be somewhat longer-lasting, which suggests that the near-term growth outlook will be weaker than previously anticipated. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

"This assessment is broadly reflected in the March 2019 ECB staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.1% in 2019, 1.6% in 2020 and 1.5% in 2021. Compared with the December 2018 Eurosystem staff macroeconomic

projections, the outlook for real GDP growth has been revised down substantially in 2019 and slightly in 2020."

The downgrade of the ECB's economic outlook was not viewed favorably by investors, even as it should not be much of a surprise given recent projections from the International Monetary Fund…

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IMF Not Exactly Bullish on Europe

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WEO Update, January 2019

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year					
		Estimates	Projections		Difference from Oct 2018 WEO Projections 1/	
	2017	2018	2019	2020	2019	2020
World Output	**3.8**	**3.7**	**3.5**	**3.6**	**–0.2**	**–0.1**
Advanced Economies	**2.4**	**2.3**	**2.0**	**1.7**	**–0.1**	**0.0**
United States	2.2	2.9	2.5	1.8	0.0	0.0
Euro Area	2.4	1.8	1.6	1.7	–0.3	0.0
Germany	2.5	1.5	1.3	1.6	–0.6	0.0
France	2.3	1.5	1.5	1.6	–0.1	0.0
Italy	1.6	1.0	0.6	0.9	–0.4	0.0
Spain	3.0	2.5	2.2	1.9	0.0	0.0
Japan	1.9	0.9	1.1	0.5	0.2	0.2
United Kingdom	1.8	1.4	1.5	1.6	0.0	0.1
Canada	3.0	2.1	1.9	1.9	–0.1	0.1
Other Advanced Economies 3/	2.8	2.8	2.5	2.5	0.0	0.0
Emerging Market and Developing Economies	**4.7**	**4.6**	**4.5**	**4.9**	**–0.2**	**0.0**
Commonwealth of Independent States	2.1	2.4	2.2	2.3	–0.2	–0.1
Russia	1.5	1.7	1.6	1.7	–0.2	–0.1
Excluding Russia	3.6	3.9	3.7	3.7	0.1	0.0
Emerging and Developing Asia	6.5	6.5	6.3	6.4	0.0	0.0
China	6.9	6.6	6.2	6.2	0.0	0.0
India 4/	6.7	7.3	7.5	7.7	0.1	0.0
ASEAN-5 5/	5.3	5.2	5.1	5.2	–0.1	0.0
Emerging and Developing Europe	6.0	3.8	0.7	2.4	–1.3	–0.4
Latin America and the Caribbean	1.3	1.1	2.0	2.5	–0.2	–0.2
Brazil	1.1	1.3	2.5	2.2	0.1	–0.1
Mexico	2.1	2.1	2.1	2.2	–0.4	–0.5
Middle East, North Africa, Afghanistan, and Pakistan	2.2	2.4	2.4	3.0	–0.3	0.0
Saudi Arabia	–0.9	2.3	1.8	2.1	–0.6	0.2
Sub-Saharan Africa	2.9	2.9	3.5	3.6	–0.3	–0.3
Nigeria	0.8	1.9	2.0	2.2	–0.3	–0.3
South Africa	1.3	0.8	1.4	1.7	0.0	0.0

Stocks had a temporary tumble on 1.22.19, supposedly on renewed concerns for global economic growth, after the International Monetary Fund (IMF) lowered its 2019 and 2020 projections by 0.2% and 0.1%, respectively. Of course, the IMF still expects worldwide GDP growth of 3.5% in 2019 and 3.6% in 2020.

…and the World Bank.

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THE PRUDENT SPECULATOR
World Bank Expects Subpar Euro Growth

4 CHAPTER 1 GLOBAL ECONOMIC PROSPECTS | JANUARY 2019

TABLE 1.1 Real GDP[1]
(Percent change from previous year)

	2016	2017	2018e	2019f	2020f	2021f	Percentage point differences from June 2018 projections 2018e	2019f	2020f
World	**2.4**	**3.1**	**3.0**	**2.9**	**2.8**	**2.8**	**-0.1**	**-0.1**	**-0.1**
Advanced economies	**1.7**	**2.3**	**2.2**	**2.0**	**1.6**	**1.5**	**0.0**	**0.0**	**-0.1**
United States	1.6	2.2	2.9	2.5	1.7	1.6	0.2	0.0	-0.3
Euro Area	1.9	2.4	1.9	1.6	1.5	1.3	-0.2	-0.1	0.0
Japan	0.6	1.9	0.8	0.9	0.7	0.6	-0.2	0.1	0.2
Emerging market and developing economies (EMDEs)	**3.7**	**4.3**	**4.2**	**4.2**	**4.5**	**4.6**	**-0.3**	**-0.5**	**-0.2**
Commodity-exporting EMDEs	0.8	1.7	1.7	2.3	2.9	2.9	-0.8	-0.7	-0.1
Other EMDEs	5.9	6.1	5.8	5.5	5.6	5.6	0.0	-0.3	-0.1
Other EMDEs excluding China	4.9	5.2	5.0	4.7	4.9	5.1	-0.1	-0.4	-0.2
East Asia and Pacific	6.3	6.6	6.3	6.0	6.0	5.8	0.0	-0.1	0.0
China	6.7	6.9	6.5	6.2	6.2	6.0	0.0	-0.1	0.0
Indonesia	5.0	5.1	5.2	5.2	5.3	5.3	0.0	-0.1	-0.1
Thailand	3.3	3.9	4.1	3.8	3.9	3.9	0.0	0.0	0.1
Europe and Central Asia	1.7	4.0	3.1	2.3	2.7	2.9	-0.1	-0.8	-0.3
Russia	-0.2	1.5	1.6	1.5	1.8	1.8	0.1	-0.3	0.0
Turkey	3.2	7.4	3.5	1.6	3.0	4.2	-1.0	-2.4	-1.0
Poland	3.1	4.8	5.0	4.0	3.6	3.3	0.8	0.3	0.1
Latin America and the Caribbean	-1.5	0.8	0.6	1.7	2.4	2.5	-1.1	-0.6	-0.1
Brazil	-3.3	1.1	1.2	2.2	2.4	2.4	-1.2	-0.3	0.0
Mexico	2.9	2.1	2.1	2.0	2.4	2.4	-0.2	-0.5	-0.3
Argentina	-1.8	2.9	-2.8	-1.7	2.7	3.1	-4.5	-3.5	-0.1
Middle East and North Africa	5.1	1.2	1.7	1.9	2.7	2.7	-1.3	-1.4	-0.5
Saudi Arabia	1.7	-0.9	2.0	2.1	2.2	2.2	0.2	0.0	-0.1
Iran	13.4	3.8	-1.5	-3.6	1.1	1.1	-5.6	-7.7	-3.1
Egypt[2]	4.3	4.2	5.3	5.6	5.8	6.0	0.3	0.1	0.0
South Asia	7.5	6.2	6.9	7.1	7.1	7.1	0.0	0.0	-0.1
India[3]	7.1	6.7	7.3	7.5	7.5	7.5	0.0	0.0	0.0
Pakistan[2]	4.6	5.4	5.8	3.7	4.2	4.8	0.0	-1.3	-1.2
Bangladesh[2]	7.1	7.3	7.9	7.0	6.8	6.8	1.4	0.3	-0.2
Sub-Saharan Africa	1.3	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1
Nigeria	-1.6	0.8	1.9	2.2	2.4	2.4	-0.2	0.0	0.0
South Africa	0.6	1.3	0.9	1.3	1.7	1.8	-0.5	-0.5	-0.2
Angola	-2.6	-0.1	-1.8	2.9	2.6	2.8	-3.5	0.7	0.2

The good folks at the World Bank joined the sensationalistic media world by titling their latest Global Economic Prospects report, "Darkening Skies!" No doubt, the world economy faces headwinds, but the apparently ominous weather caused the Bank to lower its forecast for 2019 and 2020 global GDP growth by a whopping 0.1% in each year to 2.9% and 2.8%, respectively.

Of course, it also didn't help the U.S. markets that the important monthly Employment Situation report had a disappointing headline number of only 20,000 new jobs created in February,…

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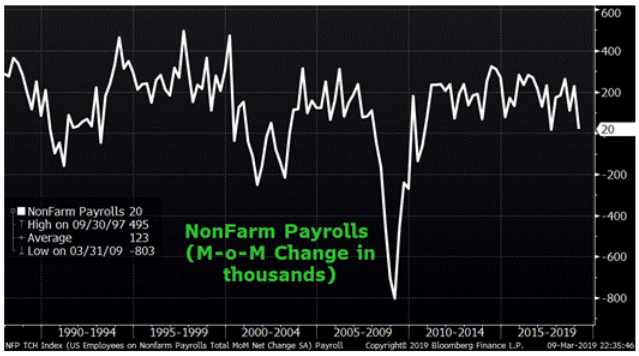
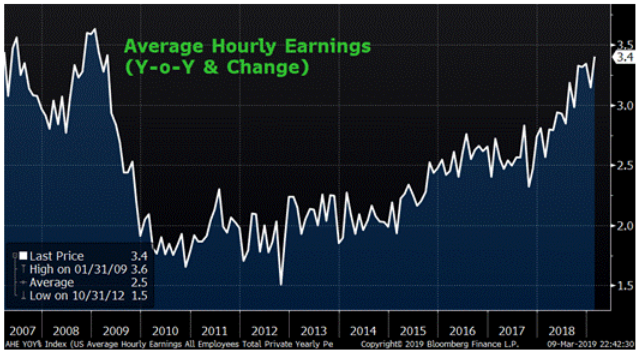
THE PRUDENT SPECULATOR
Disappointing Employment Report





Uncle Sam said that the number of new jobs created during February plunged to 20,000, well below forecasts in the 175,000 range. Of course, weather and the impact of the partial government shutdown likely played a role, the latter also a possible factor in the surprisingly strong January gain of 311,000 payrolls. Meanwhile, average hourly earnings jumped 3.4% on a year-over-year basis, the fastest pace since April 2009.

…even as other labor stats were favorable,…

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Plenty of Silver Linings on Jobs

While the headline payrolls number in February left a lot to be desired, the unemployment rate fell from 4.0% in January to 3.8% last month, near lows not seen in half a century. And, the latest figures (for the week ended 3.2.19) on first-time claims for unemployment benefits saw 223,000 new filings, also near levels not seen since the 1960s when the workforce was significantly smaller than it is today.

…as was the latest data on the health of the service sector.

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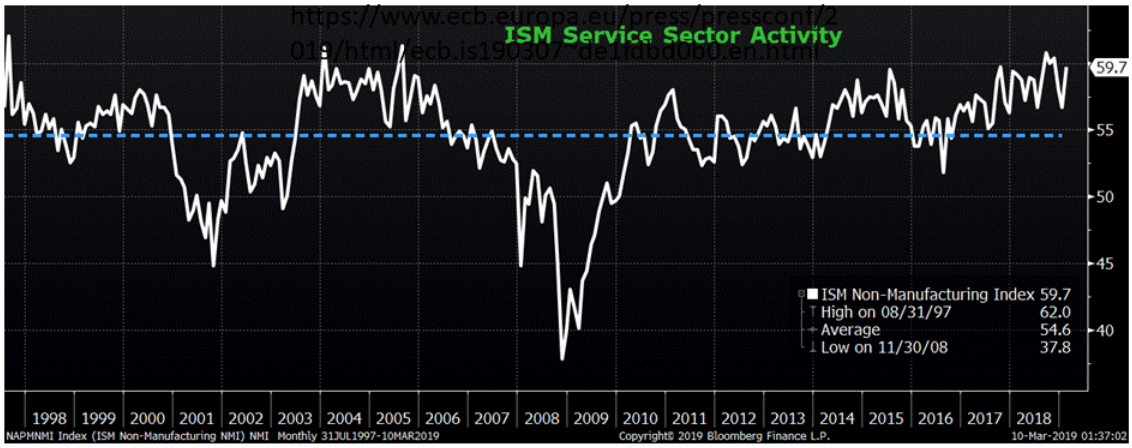
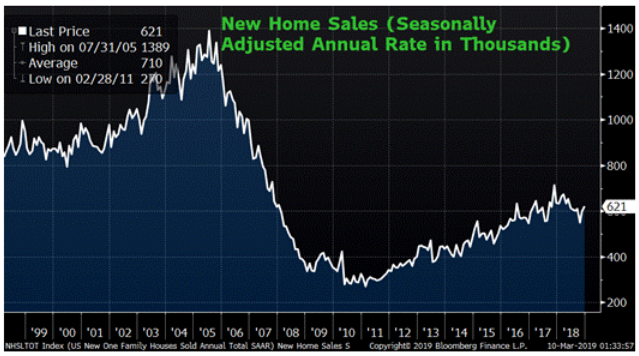
THE PRUDENT SPECULATOR
Excellent ISM Non-Manufacturing Tally

The latest read on the health of the service sector (NMI®) came in at a better-than-expected 59.7 for February, with the Institute for Supply Management stating, "The past relationship between the NMI® and the overall economy…corresponds to a 3.9% increase in real gross domestic product (GDP) on an annualized basis."



And, though the absolute figures were hardly inspiring, the latest numbers on the housing sector did come in better than projected.

Big Improvement in Housing Data



Surprising many, given the weakness in housing data of late, new home sales jumped 3.7% in December on a month-over-month basis to a 621,000 annual rate. The tally beat expectations, though it was down 2.4% year-over-year, yet the median price rose 5.0% from November to $318,600. Also a positive were housing starts for January rebounding to 1.23 million and permits climbing to 1.34 million, both exceeding forecasts.

This is not to say that we believe the U.S. economy is about to boom, but we think the data points cited above provide more evidence that a recession this year is not in the cards. Anything is a possible, of course, but even if economic contraction were to occur, we like what market history has to say about the performance of Value stocks.

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%	190732%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	354479%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	255471%
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 3.8.19. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

So, we continue to see no reason to alter our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, especially as the latest downturn in interest rates adds to the relative appeal of equities.

AFAM
a KOVITZ division

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 5.54%.

And, for those looking to put new dollars to work, we always favor those names that haven't received a lot of recent love.

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
Worst Performers Since Bear Market Low

Laggards Since Bear Market Low 12.24.18

Symbol	Common Stock	TR Since 12.24.18	3.8.19 Price	Target Price	Sector	P/E	P/S	P/TBV	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
CVS	CVS Health	-15.2	52.93	111.34	Health Care Equip/Srvcs	7.5	0.4	nmf	21.7	12.3	nmf	3.8%	68,655
GT	Goodyear Tire	-8.0	17.63	32.25	Autos & Components	7.6	0.3	1.0	4.8	3.0	123%	3.6%	4,095
WBA	Walgreens Boots Alliance	-7.7	59.90	108.30	Food & Staples Retailing	9.7	0.4	nmf	9.0	10.7	nmf	2.9%	56,512
KR	Kroger Co	-7.6	24.47	36.09	Food & Staples Retailing	11.7	0.2	5.6	6.8	5.5	346%	2.3%	19,521
ALK	Alaska Air Group	-2.9	55.62	92.92	Transportation	12.5	0.8	4.1	7.4	2.9	96%	2.5%	6,848
NEM	Newmont Mining	-2.1	33.71	42.28	Materials	25.2	2.5	1.7	9.8	4.4	33%	1.7%	17,956
QCOM	Qualcomm	0.9	53.53	76.93	Semiconductors	13.7	3.0	nmf	23.8	2.3	nmf	4.6%	64,788
JNPR	Juniper Networks	1.2	25.69	37.16	Technology Hardware	13.6	1.9	5.6	9.6	8.0	112%	3.0%	8,938
MOS	Mosaic Co	1.4	28.02	49.97	Materials	13.2	1.1	1.2	9.1	4.4	52%	0.4%	10,801
PFE	Pfizer	1.7	40.89	48.25	Pharma, Biotech	13.6	4.2	nmf	12.3	5.8	nmf	3.5%	227,013
SIEGY	Siemens AG	1.8	53.43	85.00	Capital Goods	17.3	1.9	13.7	10.7	4.7	485%	3.0%	90,831
AMGN	Amgen	2.2	180.87	226.56	Pharma, Biotech	12.6	4.7	nmf	9.6	8.9	nmf	3.2%	112,551
SNY	Sanofi	3.4	42.91	59.23	Pharma, Biotech	14.0	5.4	nmf	16.6	5.0	nmf	3.4%	107,059
MCK	McKesson	3.7	111.86	194.58	Health Care Equip/Srvcs	8.4	0.1	nmf	21.0	11.2	nmf	1.4%	21,458
HSBC	HSBC Holdings PLC	3.8	40.87	53.94	Banks	11.3	nmf	0.9	nmf	nmf	nmf	6.2%	163,899
DAL	Delta Air Lines	4.1	49.59	72.29	Transportation	8.8	0.8	nmf	6.4	5.0	nmf	2.8%	33,669
GILD	Gilead Sciences	4.4	63.23	108.18	Pharma, Biotech	9.5	3.6	52.6	8.0	9.1	nmf	4.0%	80,651
TPR	Tapestry Inc	4.9	33.54	56.11	Consumer Durables	12.5	1.6	37.0	8.6	9.4	nmf	4.0%	9,726
HFC	HollyFrontier	5.0	48.80	81.93	Energy	7.6	0.5	2.6	4.9	14.6	74%	2.7%	8,333
ANH	Anworth Mortgage Asset	5.2	4.15	4.94	Diversified Financials	8.3	nmf	0.9	nmf	nmf	nmf	12.5%	409
NOV	National Oilwell Varco	5.9	25.87	42.34	Energy	nmf	1.2	2.2	12.5	2.8	60%	0.8%	9,919
MDT	Medtronic PLC	6.1	90.52	107.71	Health Care Equip/Srvcs	17.7	4.0	nmf	15.4	4.0	nmf	2.2%	121,401
ADM	Archer-Daniels-Midland	6.7	41.92	55.97	Food	12.0	0.4	1.6	10.7	-23.8	52%	3.3%	23,479
HMC	Honda Motor	7.2	27.05	40.80	Autos & Components	7.2	0.3	0.7	7.0	8.5	53%	3.2%	48,999
VZ	Verizon Comm	7.7	56.53	66.24	Telecom Services	12.0	1.8	nmf	8.7	7.6	nmf	4.3%	233,585

As of 3.8.19. 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/, Chris Quigley offers 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.

General merchandise discount store chain **Target** (TGT – $75.81) earned $1.53 per share in fiscal Q4 2019, matching the consensus estimate. TGT had total revenue of $22.97 billion, versus the $22.95 billion estimate. Shares moved up 4.6% following the announcement, as investors were encouraged by TGT's improved margins and positive outlook.

CEO Brian Cornell said, "We announced our most successful year-over-year performance in well over a decade. Our comp sales surged this holiday season, fueled by unprecedented traffic gains, especially in our stores. Back in 2017, we laid out an ambitious investment agenda to re-imagine our stores, re-event our supply chain and fulfillment capabilities to reposition our own brand portfolio, invest in our team and I think we can all agree at that time, the plan was not met with universal applause. We've built a successful durable model and I'm confident we are well positioned to continue to deliver strong sales and traffic growth in 2019. As we carry into 2019, you can expect Target will continue to deliver. We'll continue to adapt, evolve, innovate, invent,

we will continue to inspire, and we'll continue to succeed. So that Target will continue to lead this industry for many years to come."

In fiscal 2020, TGT expects to earn $5.75 to $6.05 per share (compared with $5.39 in 2019), while first quarter EPS should be between $1.32 and $1.52. After the shares fell off a cliff between October and December of last year, we are happy to see renewed enthusiasm for the retailer. We think TGT has aggressively taken on titans like Amazon and **Walmart** (WMT – $97.59) and believe that the future continues to look bright. Our Target Price for TGT, which trades for 12.9 times NTM earnings and yields 3.4%, has been raised to $96.

Family-oriented department store operator **Kohl's** (KSS – $67.77) posted earnings per share of $2.24, versus the $2.18 estimate, in fiscal Q4 2019. KSS had sales of $6.5 billion (vs. $6.6 billion est.). Although the share price zoomed as much as 7.3% higher following the announcement, KSS finished the week down 0.5%.

"Comp sales on a shifted basis increased 1%, our sixth consecutive quarter of growth. The increase was generally consistent with the November/December holiday results that we announced in early January. We are excited to report the increase in comp sales given the exceptional holiday season that we had in 2017. On a two-year basis, our fourth quarter comp sales increased over 7%. Our strong performance reflects the compelling product offering, great marketing strategy and consistent execution in stores and online," said CEO Michelle Gass. "We are delivering growth while also improving both profitability and margin, reporting our fifth consecutive quarter of margin expansion. Our long-term strategic initiatives and our commitment to our two top priorities of driving traffic and Operational Excellence are paying off. We are financially strong and our overall health in the business affords us the ability to drive the future we want to create."

We continue to like Kohl's evolution and believe there is plenty of upside in the name, recalling that shares were above $83 in early November 2018. KSS's EPS guidance range of $5.80 to $6.15 for fiscal 2020 is an improvement from 2019's $5.60, while expected revenue growth in the low single digits and a reasonable 24%-25% tax rate should help keep the momentum going. Our Target Price for KSS is currently a conservative $89 and we note that the stock now trades for 11.2 times estimated earnings, while yielding a just-increased 4.0%.

German parcel carrier **Deutsche Post AG** (DPSGY – $31.02) earned $0.84 per share in fiscal Q4 2018 (vs. $0.81 est.). DPSGY had revenue of $19.3 billion (vs. $18.8 billion est.). Shares added 1% on the news, bringing the total gain this year to 13.5%.

CEO Dr. Frank Appel commented, "We reconfirm first our guidance for next year that we will deliver more than €5 billion, based on €1.6 billion, which was originally €1.7 billion, but we carved our eCommerce Solutions and we, obviously, said it will be €0 million to €100 million, so that's now included in DHL, the €3.7 billion. Above that and the reconservation line will be then €350 million negative, leading us to, in total, more than €5 billion. In 2019, the range for our P&P (Post & Parcel) is broad, the reason for that is because we still have significant uncertainties for postage, and we also are preparing in case that the postage is not meeting our expectations that we have headroom to do something to accelerate our indirect cost reduction. So

that combined is then the reason why we put a broad range into that. We believe that we are continuing to be in a very strong position not only strategically, but also financially. We have clear measures to improve our EBIT numbers this year. If we deliver what we have promised here, it will be a new record for us. And if we deliver that, we are very confident that we have laid out the right base for next year's success."

In dollar terms, the company expects to achieve adjusted EBIT exceeding $5.65 billion by 2020, with $3.85 billion to $3.96 billion expected for fiscal 2019. Free cash flow is expected to be just over $565 million, while the tax rate expectation rose to 19% from 22%.

We believe that DPSGY (which sports a net yield of 4.4%) can benefit from the Amazon-style online shopping that hasn't taken over Europe yet, as well as its leading position in more profitable European express and parcel mail (most other carriers haven't diversified yet in Europe). While online shopping might not reach the level it has in the U.S., primarily because of different consumer behavior, a global marketplace of goods available at the click of a button is incredibly enticing. DPSGY also has augmented its cargo plane fleet and is working to shore up pricing. The stock now trades for an inexpensive 12.5 times estimated earnings and for just 52% of projected sales. Our Target Price for DPSGY has been boosted to $51.

Kroger Co. (KR – $24.47) posted earnings per share of $0.48, versus the $0.53 estimate, in fiscal Q4 2019. KR had sales of $28.1 billion, versus the $28.4 billion estimate. Shares fell more than 15%, as investors were disappointed with KR's outlook and lack of margin improvement.

CEO Rodney McMullen commented, "In October 2017, we introduced Restock Kroger, our three-year plan to create shareholder value by serving America through food inspiration and uplift. The plan has four main drivers, redefine the grocery experience, partner for customer value, develop talent, and live our purpose, combined these drives — drivers come together to create shareholder value. Specifically, we committed to $400 million in incremental FIFO operating profit growth and $6.5 billion in cumulative Restock cash flow by the end of 2020."

Mr. McMullen continued, "In 2019, we expect 20% profit growth in our Alternative Businesses, and we'll also launch a few more new businesses that are both symbiotic to our core and deliver high margins. Finally, stated Restock Kroger is all about transforming our growth model. We will grow market share by creating a virtuous cycle build on our grocery business, at the core is a winning combination of unmatched local presence, coupled with a digital ecosystem that enables us to offer our customers anything, anytime, anywhere. We are enhancing the customer ecosystem with partnerships that are helping us to redefine the customer experience by building incredible physical and digital experiences, a fantastic offering and unprecedented convenience…Above all Restock Kroger positions Kroger to create long-term shareholder value. We have a clear path to achieve the $400 million in incremental FIFO operating profit growth and $6.5 billion in cumulative Restock cash flow by the end of 2020. We finished 2018 with sales and business momentum. We expect earnings growth and an improving supermarket business in 2019."

KR expects to earn $2.15 to $2.25 per share in fiscal 2020, only slightly above the $2.11 in EPS for 2019. Management expects revenue growth between 2.0% and 2.25%, with a slightly

increased 22% tax rate. While revenue and EPS growth is certainly better than a contraction, KR's outlook lags some of the company's peers. That, paired with modest gross margin contraction and regularly appearing concerns about the brick-and-mortar grocery business being ripe for disruption, contributed to the sell-off.

Of course, the grocery store business has been "going out of business" since 1997 when HomeGrocer was going to take over. More than two decades later, HomeGrocer is long gone and Kroger is very much alive. Certainly, we are not trumpeting KR's relative success, but we think it's important to highlight that the business can survive and thrive. Amazon's Whole Foods purchase and news this past week that the online giant would open additional lower-priced grocery stores (though not yet really a challenge to Kroger's turf), along with big pushes from TGT and WMT into the grocery market put pressure on KR to innovate, and we think that management's Restock Kroger program is a significant step in the right direction.

KR shares trade at a very reasonable 11.1 times NTM adjusted EPS projections, while the stock yields 2.3%. Our Target Price on KR has been trimmed to $36, but we think the shellacking endured by the shares was very much overdone.

Semiconductor firm **Marvell Technology Group** (MRVL – $18.68) posted earnings per share of $0.25, versus the $0.26 estimate, in fiscal Q4 2019. MRVL had sales of $745.0 million (vs. $744.0 million est.). Shares slipped 2.6% following the announcement.

CEO Matt Murphy explained, "We continued our drive towards operational excellence and scale, shifting our focus to the infrastructure market and delivering more value from our engineering efforts. The result was an increase in profitability as we transform Marvell into a leading silicon supplier to the infrastructure market. During the year, despite a tense and challenging geopolitical climate, we secured regulatory approval for the Cavium merger. The result is a stronger and more diverse company with the scale and broad portfolio to deliver significant long-term value to customers, shareholders, and employees. The merger also accelerated Marvell's ongoing shift to the growing and lucrative infrastructure market."

Mr. Murphy continued, "Like many of our customers and peers, Marvell is not immune to the macroeconomic forces affecting today's market, but I'm pleased about our new products in development which we will continue to invest in and about our design pipeline. Marvell is entering an extremely strong new product cycle, driven by our design wins in the 5G, data center, automotive, and enterprise markets. These will increase demand for our embedded and baseband processors, Ethernet switches and PHYs, Wi-Fi, security and server processors. We believe that our enterprise networking business will stabilize and keep growing over the long term. Storage, which is a cyclical end market, is going through a downturn, but our storage products will remain very profitable even as they become a smaller percentage of our revenue as we diversify into higher-growth networking markets."

CFO Jean Hu added, "For the first fiscal quarter of 2020, we expect our revenue to be $650 million, plus or minus 3%. Our expected GAAP gross margin will be approximately 55%, and non-GAAP gross margin will be approximately 64%. Note that we expect to complete our planned $50 million of COGS-related integration synergies by the end of this fiscal year. We

expect our non-GAAP tax rate to be approximately 4.5% in fiscal 2020. This forecast reflects the impact of the Cavium acquisition. We expect net interest expense to be $19 million. We anticipate GAAP loss per diluted share in the range of $0.05 to $0.09, and non-GAAP income per diluted share in the range of $0.12 to $0.16."

We have been pleased with the speedy Cavium integration and think that the 2018 slump for MRVL shares was unwarranted. While shares have taken a bit of a breather lately, they are still up more than 15% this year and we think the future remains bright with plenty of upside left. Analysts estimate that the forward EPS will grow from $0.37 in fiscal 2016 to $1.66 by 2021. That said, our Target Price has been trimmed to $24.