Market Commentary Monday, July 1, 2019

July 1, 2019

EXECUTIVE SUMMARY

Newsletter Portfolio Trades – Sold Portions of our ABT on 6/24
July Edition – *TPS 633* Coming Wednesday, July 3
Target Prices – New Listing Soon to be Posted
Week in Review – Modest Gains…For Value…on G20 Optimism
In Defense of Value – 30 Pictures and More than a Few Words
Stock Updates – BMY, WBA, MU & FDX

Market Review

A little bit of housekeeping to attend to…as indicated on our June 20 *Sales Alert*, we sold 53 and 300 shares of **Abbott Laboratories** (ABT – $84.10) respectively held in Buckingham Portfolio and TPS Portfolio at $85.007 on Monday, June 24. As those sales took the position sizes down to roughly 1.2%, we will also close out 188 ABT shares in PruFolio at that same $85.007 price.

Work is also underway on the July edition of *The Prudent Speculator*. This month, we are planning our semi-annual Sector/Industry Group Weighting Review and our Value vs. Growth Sector Attribution. If all goes according to plan, we expect to have *TPS 633* emailed out by Wednesday morning, July 3. In the interim, we are in the process of posting Target Prices for all of our formerly recommended but not yet closed out stocks to theprudentspeculator.com.

While the broad-based S&P 500 and Russell 3000 indexes dropped 0.28% and 0.12%, respectively, last week, the terrific month of June ended on a high note, thanks in part to modest optimism about potentially positive developments related to the trade battle with China at this weekend's G20 meeting in Asia. And, though nothing was really done to end the skirmish at the summit in Japan, the headlines on Saturday – no escalation in the level of tariffs, agreement to keep talking and an easing of restrictions on Chinese tech giant Huawei – were somewhat promising.

For their part, Value stocks had very nice relative performance for the five trading days just completed. The Russell 3000 Value index, no doubt buoyed by favorable reactions for many big banks following the results of the annual Federal Reserve Stress Tests, gained 0.38%, while the Russell 3000 Growth index dipped 0.58%. And, for those who think a 0.38% weekly return doesn't sound like much, via the Miracle of Compounding, such a return every week would work out to 21.80% on an annual basis.

Speaking of Value versus Growth, we have received plenty of inquiries on the subject, so we dedicate the balance of this missive to our Defense of Value.

Calling the bottom in Value's lousy recent relative performance run versus Growth has bloodied many a prognosticator,…

…but there isn't a lot to complain about in regard to nearly all of the equity index returns on an absolute basis in the chart below, no matter the strategy, especially given that returns over the past two decades include two giant market crashes in the Bursting of the Tech Bubble and the Financial Crisis.

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THE PRUDENT SPECULATOR
Favorable Returns Growth AND Value

While many are of the mind that the trend toward passive investing and the extraordinarily low interest rate environment have been the main catalysts for Growth stocks to significantly outperform Value stocks over the last decade, we note that the returns on the more inexpensive areas of the equity market have not exactly been chopped liver.

Total Returns Matrix

Month to Date	Year to Date	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol	Name
2.22	5.57	6.19	5.32	6.37	12.12	32.66	74.16	139.45	LEGATRUU Index	Global Aggregate Bond Index
1.26	6.11	7.91	7.09	15.75	19.60	46.58	88.42	163.92	LBUSTRUU Index	U.S. Aggregate Bond Index
7.70	20.34	-0.54	56.70	51.58	140.41	280.98	263.16	260.71	RUO Index	Russell 2000 Growth Index
6.37	13.45	-6.46	37.82	30.28	104.06	217.57	189.29	426.97	**RUJ Index**	**Russell 2000 Value Index**
7.07	16.97	-3.45	47.28	40.99	122.23	249.37	227.20	354.43	RUT Index	Russell 2000 Index
6.93	21.41	10.76	68.25	84.52	182.16	345.62	311.30	209.78	RAG Index	Russell 3000 Growth Index
7.12	16.05	7.33	38.41	42.28	125.79	243.93	209.66	257.45	**RAV Index**	**Russell 3000 Value Index**
7.02	18.71	9.05	52.95	62.49	153.34	292.88	260.45	249.27	RAY Index	Russell 3000 Index
6.17	20.19	12.15	65.69	84.91	181.41	344.56	308.25	225.46	SGX Index	S&P 500 Growth Index
8.08	16.70	8.70	40.01	46.26	128.69	242.63	198.75	206.52	**SVX Index**	**S&P 500 Value Index**
7.05	18.54	10.50	53.47	66.21	156.05	294.08	254.17	224.44	SPX Index	S&P 500 Index
7.98	4.40	13.94	51.96	67.43	158.89	280.52	265.96	380.11	BRK/B Equity	Berkshire Hathaway Inc

As of 06.28.19. Source Kovitz Investment Group using data from Bloomberg

And, this is especially true, considering that so many investors jump around from stock to stock, sector to sector or even strategy to strategy, usually with detrimental consequences,…

THE PRUDENT SPECULATOR
Few Come Close to Beating the Indexes

Since 1994, DALBAR's Quantitative Analysis of Investor Behavior has measured the effects of investor decisions to buy, sell and switch into and out of mutual funds over short and long-term timeframes. As the latest evidence (as of 12.31.18) reveals, folks are lousy market timers.

	Average Equity Fund Investor (%)	Average Fixed Income Fund Investor (%)	Average Asset Allocation Fund Investor (%)	S&P 500 (%)	BloombergBarclays Aggregate Bond Index (%)	Inflation (%)
20 Year	3.88%	0.22%	1.87%	5.62%	4.55%	2.17%
10 Year	9.66%	0.70%	4.53%	13.12%	3.48%	1.82%
5 Year	3.96%	-0.40%	1.50%	8.49%	2.52%	1.56%
3 Year	5.58%	-0.11%	1.84%	9.26%	2.06%	2.04%
12 Month	-9.42%	-2.84%	-6.97%	-4.38%	0.01%	1.93%

…as many are seduced by the seemingly greener grass of what has recently outperformed often right in time for what was just sold to have its day in the sun, with a consistent approach over the long-term likely producing better returns. Illustrating the point, since your Editor became Chief Portfolio Manager back at the end of 1990, the S&P 500, Russell 3000, Russell 3000 Growth and Russell 3000 Value indexes have annualized returns in a relatively tight 9.1% to 9.7% range, with each taking turns topping the year-by-year performance tables.

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THE PRUDENT SPECULATOR
Index Returns Race – Year by Year

Index Returns

Year	Russell 3000 Value	Russell 3000 Growth	Russell 3000	S&P 500	R3KV Outperform R3KG	R3KV Outperform R3K	R3KV Outperform S&P
1991	25.4%	41.7%	29.5%	30.4%	No	No	No
1992	14.9%	5.2%	6.5%	7.6%	Yes	Yes	Yes
1993	18.7%	3.7%	8.1%	10.1%	Yes	Yes	Yes
1994	-2.0%	2.2%	-2.4%	1.3%	No	Yes	No
1995	37.0%	36.6%	36.6%	37.5%	Yes	Yes	No
1996	20.8%	21.8%	21.8%	22.9%	No	No	No
1997	34.3%	28.7%	31.8%	33.3%	Yes	Yes	Yes
1998	13.2%	35.0%	24.1%	28.5%	No	No	No
1999	6.5%	33.8%	20.9%	21.0%	No	No	No
2000	8.4%	-22.4%	-7.3%	-9.1%	Yes	Yes	Yes
2001	-4.3%	-19.6%	-11.5%	-11.9%	Yes	Yes	Yes
2002	-15.2%	-28.0%	-21.5%	-22.1%	Yes	Yes	Yes
2003	31.1%	31.0%	31.0%	28.7%	Yes	Yes	Yes
2004	16.9%	6.9%	11.9%	10.9%	Yes	Yes	Yes
2005	6.8%	5.2%	6.1%	4.9%	Yes	Yes	Yes
2006	22.3%	9.4%	15.7%	15.8%	Yes	Yes	Yes
2007	-1.1%	11.5%	5.2%	5.6%	No	No	No
2008	-36.3%	-38.5%	-37.3%	-37.0%	Yes	Yes	Yes
2009	19.7%	37.0%	28.3%	26.4%	No	No	No
2010	16.2%	17.6%	16.9%	15.1%	No	No	Yes
2011	-0.1%	2.2%	1.0%	2.1%	No	No	No
2012	17.6%	15.2%	16.4%	16.0%	Yes	Yes	Yes
2013	32.7%	34.2%	33.6%	32.4%	No	No	Yes
2014	12.7%	12.4%	12.6%	13.7%	Yes	Yes	No
2015	-4.1%	5.1%	0.5%	1.4%	No	No	No
2016	18.4%	7.4%	12.7%	12.0%	Yes	Yes	Yes
2017	13.2%	29.6%	21.1%	21.8%	No	No	No
2018	-8.6%	-2.1%	-5.2%	-4.4%	No	No	No
Averages:	**9.7%**	**9.1%**	**9.2%**	**9.4%**	Yes	Yes	Yes

Source: Kovitz Investment Group using data from Bloomberg

While Value strategies (using the popular Russell 3000 Value index as a proxy) have had far fewer first-place finishes since the end of the Financial Crisis in 2009, they did go on a seven-year winning streak (on a relative basis) following the bursting of the Tech Bubble in the year 2000. Interestingly, the returns and valuation gaps are tilted as widely in favor of Growth versus Value today as they were 19 years ago. As Mark Twain said, "History doesn't repeat, but it often rhymes!"

Sadly, we suspect that few have come close to generating long-term returns north of 9%, as many forget the sage advice of Lao Tzu, "If you do not change direction, you may end up where you are heading." We realize that it is easier said than done to stick with one's long-term investment plan through thick and thin,…

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THE PRUDENT SPECULATOR
Temperament Often Trumps Intellect

There may be no better visual aid to remind folks that investing is an emotional roller coaster than Wall Street's most photographed (per Marketwatch) trader Peter Tuchman. Sadly, many panic on days as shown on the left, missing out on the rewards depicted on the right.

BUSINESS

Stocks skid as Apple pulls tech companies lower

Thu., April 28, 2016, 2:20 p.m.

Trader Peter Tuchman, left, and specialist Robert Tuccillo work on the floor of the New York Stock Exchange, Thursday, April 28, 2016. (Richard Drew / Associated Press)

© Associated Press Photo

…with May and June 2019 a microcosm of the market gyrations investors must navigate,…

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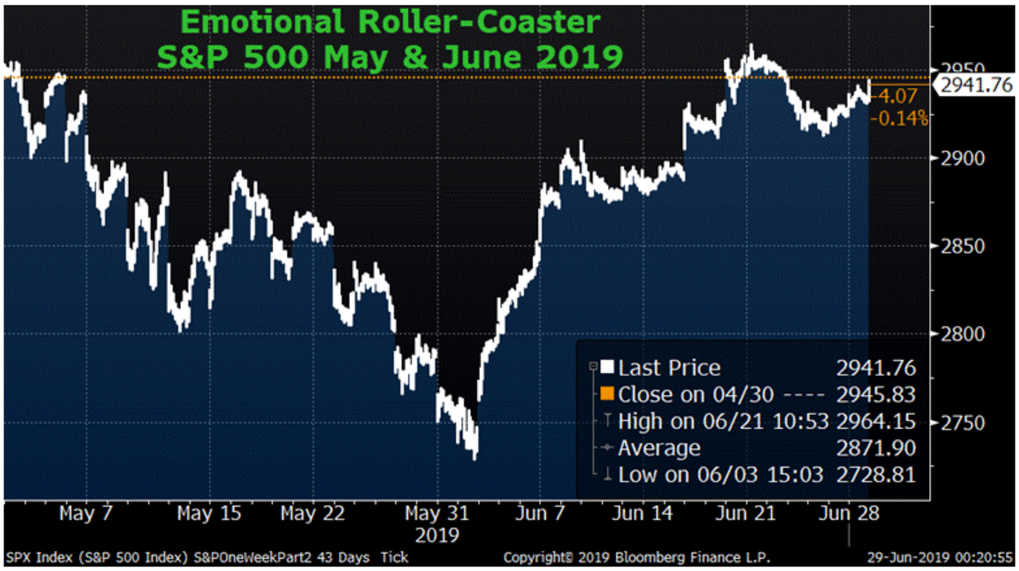
Volatility Measuring Stick

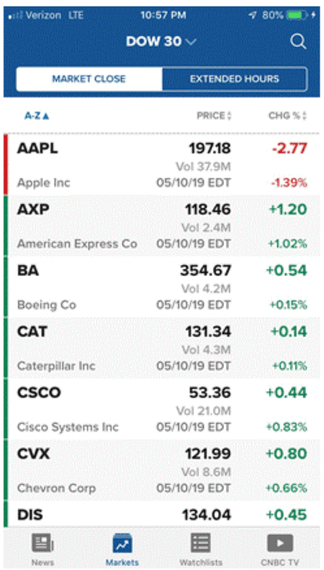
After turning in the second-worst May since the 1960s, the S&P 500 enjoyed its best June since 1955. Of course, the index ended the two months with almost no change, so the period is viewed as either one of the most volatile or least volatile in history, depending on the lens used!



…while possessing the tools to jump ship at the push of a button with today's minuscule trading costs providing almost no headwind against the constant temptation to continually change course.

24/7 Access to Portfolio Info is a Problem

Myopic loss aversion is the combination of a greater sensitivity to losses than to gains and a tendency to evaluate outcomes frequently...The investors who got the most frequent feedback (and thus the most information) took the least risk and earned the least money.



As such, now, more than ever, we think it important for those looking to grow their wealth over the long term to follow a Value-oriented investment approach, as buying things that are on sale should resonate with the way most folks live their lives.

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THE PRUDENT SPECULATOR
Value Makes Sense – Most Like A Bargain

Of course, we also think that Value is a common sense strategy,…

THE PRUDENT SPECULATOR
We are Buying Future Cash Flows

- It's a matter of Investing 101:
  - SHAREHOLDERS OWN
  - SOME FRACTION
  - OF FUTURE CASH FLOW
- We should like to
  - PAY AS LITTLE AS POSSIBLE FOR
- that future cash flow, whether it's in the form of
  - DIVIDENDS **or** REINVESTED EARNINGS.

…that offers the potential for plenty of rewards for the risks that we are taking,…

THE PRUDENT SPECULATOR
Return Maximization/Risk Minimization

- REASONING:

- First...paying as little as possible for those cash flows maximizes our yield on those cash flows.

- Second...that we paid as little as possible for those cash flows minimizes the consequence of misestimating where those cash flows might be a few years down the road.

…as we have several avenues for capital appreciation,…

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THE PRUDENT SPECULATOR
Value Offers Several Ways to Win

- FURTHER...

- In buying low, we're looking for two primary forces (among others...) to potentially lift return:

- 1: Suppose the existing relatively low price multiple of various income-oriented fundamental metrics (price to: revenue, earnings...) does not change, growth in the underlying fundamental series can lift the stock;

- AND/OR given an existing relatively pessimistic view on a particular financial health metric (debt-to-equity, interest coverage...), modest gains to financial health also may lift the shares.

- 2: Tied to the above, given already relatively low price multiples or relatively pessimistic views on financial health, the forces that generally drive reversion to the mean mostly point up.

…that do not rely on the continuation of an overly optimistic story or massive growth in sales and/or earnings to justify a continued rich valuation.

THE PRUDENT SPECULATOR
Growth Often Requires More Good News

- RATHER…PAYING UP FOR GROWTH:

- Requires the fulfillment of an already aggressive prophesy. Unless continued, long-term exceptional growth can be justified, exuberant multiples leave room only to justify the expansion of the underlying fundamental series.

- Too, the forces that generally drive reversion to the mean mostly point down.

- Seems to us just as easy to fail to meet “priced to perfection” projections, as it is to surpass “price to fail” projections.

Not surprisingly, Value has proven to be a very lucrative way to invest over the past 90+ years and for the 42 years we have been publishing *The Prudent Speculator*,…

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THE PRUDENT SPECULATOR
Value Has Won the Long-Term Race

No matter the financial metric, Value stocks have generated superior returns to their Growth counterparts over long-term time spans.

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.8%	29.5%
Long-Term Corporate Bonds	6.0%	7.5%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 03.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French 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

FAMA FRENCH FACTORS: LONG TERM

Value (High 30%) metrics have performed very well since 1963 (common initial data series date) and the launch of *TPS* in 1977.

Metric	High 30%	Middle 40%	Low 30%
Since June 30, 1963			
Operating Profitability	11.6%	10.0%	8.1%
Earnings/Price	13.7%	10.8%	9.4%
Book to Market	13.3%	10.8%	9.9%
Cash Flow/Price	13.3%	10.6%	9.7%
Average	**13.0%**	**10.6%**	**9.3%**
Since February 28, 1977			
Operating Profitability	13.1%	11.4%	8.6%
Earnings/Price	14.2%	12.2%	10.9%
Book to Market	13.4%	12.0%	11.5%
Cash Flow/Price	13.6%	12.1%	11.4%
Average	**13.6%**	**11.9%**	**10.6%**

Operating Profitability: *Portfolios formed on annual revenue minus cost of goods sold, interest expense, and selling, general and administrative expense divided by the sum of book equity and minority interest*
Earnings/Price: *Portfolios formed on earnings before extraordinary items divided by price*
Book to Market: *Portfolios formed on Book Equity divided by Market Equity*
Cash Flow/Price: *Portfolios formed on total earnings before extraordinary items, plus depreciation plus deferred taxes, divided by price*
Through 02.28.19. SOURCE: Kovitz Investment Group using data from Professors Fama and French

…though it definitely has been a different story since the Financial Crisis.

THE PRUDENT SPECULATOR
Growth Has Been Tops Since 2007

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Mirroring the outperformance prior to the Tech Bubble, Growth valuation factors have fared much better since the Financial Crisis, even as returns since 1996 still favor various Value metrics.

FAMA FRENCH FACTORS: INTERMEDIATE TERM

Not surprisingly, Growth (Low 30%) metrics performed best during the '95-'00 and '07-Present periods but worst from '00-'07.

Metric	High 30%	Middle 40%	Low 30%
December 31, 1995 through June 30, 2000			
Operating Profitability	24.3%	19.6%	21.2%
Earnings/Price	17.1%	16.6%	23.3%
Book to Market	16.9%	14.0%	25.8%
Cash Flow/Price	14.9%	16.5%	24.9%
Average	**18.3%**	**16.7%**	**23.8%**
June 30, 2000 through May 31, 2007			
Operating Profitability	4.7%	4.6%	-2.9%
Earnings/Price	16.4%	9.5%	0.6%
Book to Market	13.6%	12.6%	-0.3%
Cash Flow/Price	14.4%	10.3%	0.7%
Average	**12.3%**	**9.3%**	**-0.5%**
May 31, 2007 through February 28, 2019			
Operating Profitability	9.8%	7.0%	4.5%
Earnings/Price	7.3%	7.3%	9.1%
Book to Market	4.9%	5.9%	10.1%
Cash Flow/Price	7.5%	6.6%	9.9%
Average	**7.4%**	**6.7%**	**8.4%**

SOURCE: Kovitz Investment Group using data from Professors Fama and French

IN-HOUSE VALUATION FACTORS: SINCE 1996

Echoing Fama/French calcs, our own analytics also find Value (High 30%) metrics to be the most attractive over the past 22 years.

Metric	High 30%	Middle 40%	Low 30%
BOOK/P *Book Value per share divided by Price*	11.1%	8.8%	8.9%
TBV/P *Tangible Book Value per share divided by Price*	12.6%	8.7%	9.0%
DVD Yield *Dividends paid per share divided by Price (must be a dividend-paying company)*	11.6%	9.9%	9.4%
E/P *Earnings per share divided by Price*	13.8%	10.5%	6.8%
SALES/P *Sales per share divided by Price*	12.5%	9.5%	6.9%
EBITDA/EV *Earnings before Interest, Taxes, Depreciation and Amortization to Enterprise Value*	15.1%	10.4%	6.1%
FCFY *Free Cash Flow per share divided by Price*	16.1%	10.1%	3.1%
ROCE *Net Income divided by Average Common Equity*	12.0%	11.0%	5.5%
ROIC *Net Income divided by Average Invested Capital*	11.8%	10.6%	9.8%
Average	**13.0%**	**9.9%**	**7.3%**

From 12.31.96 through 12.31.18. Portfolios are formed using the Russell 1000 ranked by decile. Deciles are grouped into three buckets (High 30%, Middle 40% and Low 30%), then averaged. Portfolios are rebalanced monthly. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Obviously, though some may be surprised to learn that it was the case during June when the S&P 500 Value index gained 8.08% versus a 6.17% advance for the S&P 500 Growth index (the Russell 3000 Value/Growth differential was much smaller at 7.12% to 6.93%), there can be no assurance that Value will reassert its historical dominance over Growth,…

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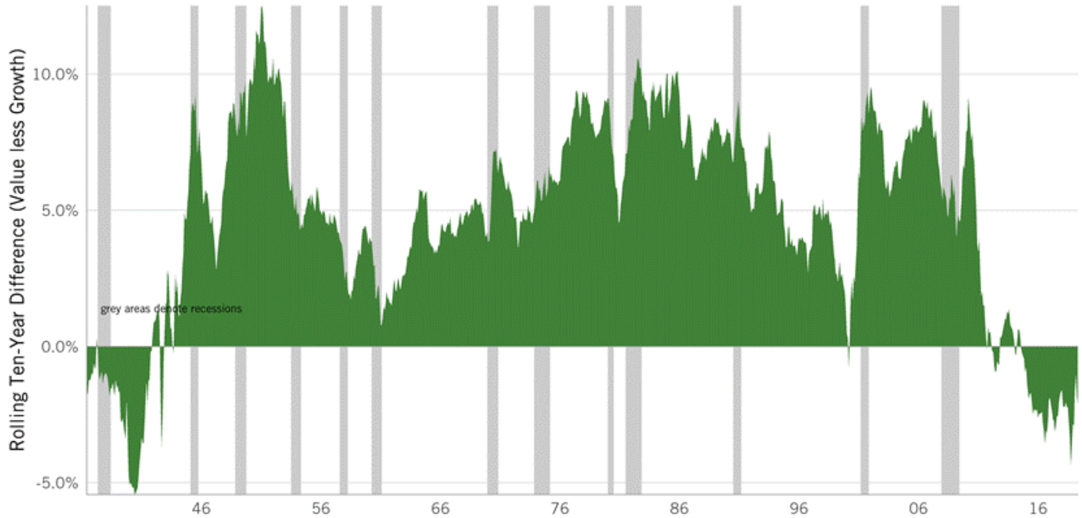
THE PRUDENT SPECULATOR
Not Many 10-Year Laggings for Value

While the current bout of outperformance for Growth has persisted longer than we might have liked, students of market history will undoubtedly like the odds for a Value resurgence going forward.

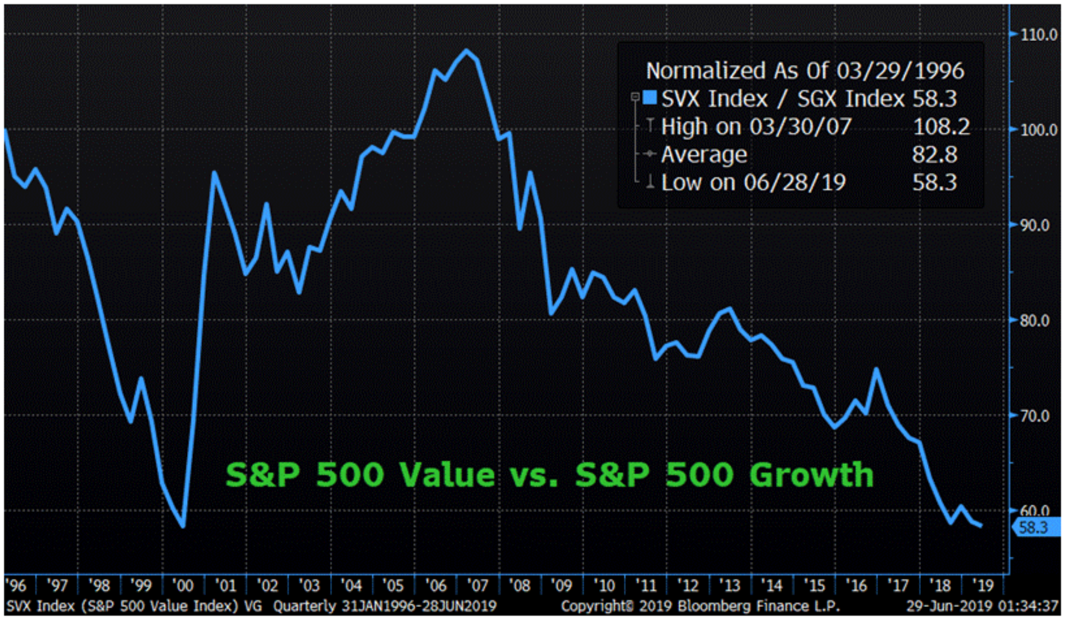


From 06.30.26 through 04.30.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Annualized total return. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…we think it may be time for inexpensive stocks to take the lead,…

THE PRUDENT SPECULATOR
Value "Buy" Signal Better than Mar 2000

While it is frustrating to see the Amazons continue to head north, while companies with inexpensive financial fundamentals lag behind, Value Stocks are now extraordinarily attractive relative to Growth.



…especially as the gap in valuations is as wide today as it has been since the year 2000 in regard to metrics like Price to Book Value,…

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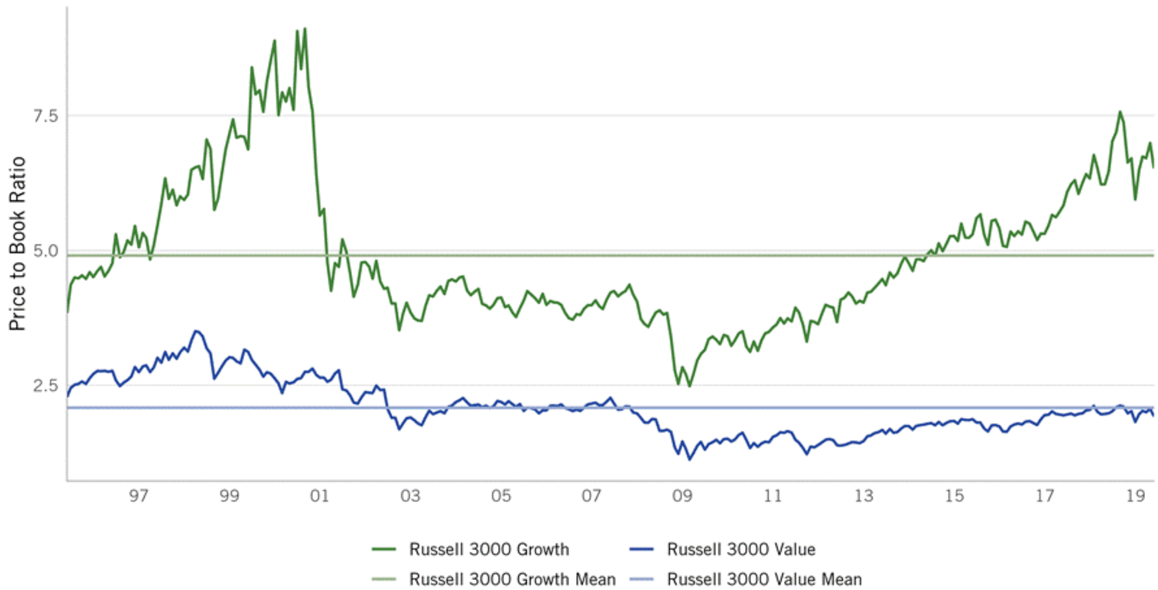
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Book Value

Value stocks are as attractive relative to Growth as at any time since the Tech Bubble, the bursting of which led to massive Value outperformance.



From 05.31.95 through 05.31.19. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…and Price to Sales.

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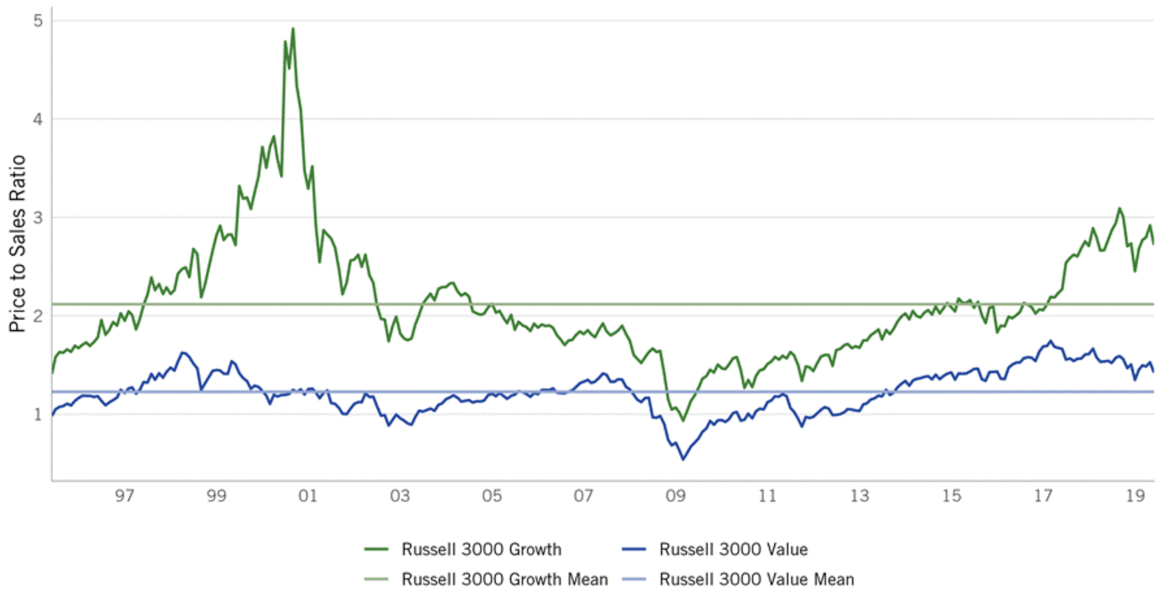
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Sales

Value stocks are as attractive relative to Growth as at any time since the Tech Bubble, the bursting of which led to massive Value outperformance.



From 05.31.95 through 05.31.19. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Certainly, we understand that many think that Growth stocks will remain in vogue with the Federal Reserve appearing ready to cut interest rates again, but the historical evidence on average on this front actually favors Value (as it does when the Fed is raising rates),…

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THE PRUDENT SPECULATOR
Δ in Fed Funds Rate & Value/Growth

Concurrent Stock Performance & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.55%	387	14.1%	11.4%	10.9%	11.7%
More than 4.55%	388	14.5%	8.4%	11.7%	7.6%
3-Month Drop	356	17.5%	11.6%	13.6%	10.2%
3-Month Rise	415	11.8%	8.4%	9.3%	9.1%
6-Month Drop	342	16.6%	11.9%	13.8%	9.9%
6-Month Rise	423	12.5%	8.1%	9.2%	9.1%
12-Month Drop	345	14.6%	10.7%	12.4%	8.3%
12-Month Rise	408	14.0%	9.0%	10.2%	10.1%

From 07.31.54 through 03.31.19. Concurrent annualized 12-month returns. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance. & Change in Federal Funds Eff. Rate

	Count	Value	Growth	Payers	Non-Payers
Less than 4.55%	389	12.7%	9.7%	10.0%	9.3%
More than 4.55%	388	15.8%	9.8%	12.3%	9.3%
3-Month Drop	356	13.8%	10.2%	10.9%	10.0%
3-Month Rise	406	14.4%	9.2%	11.2%	8.5%
6-Month Drop	342	15.1%	11.3%	11.8%	11.4%
6-Month Rise	417	13.2%	8.3%	10.3%	7.3%
12-Month Drop	345	16.2%	11.5%	11.9%	11.9%
12-Month Rise	408	12.2%	7.9%	10.1%	6.8%

From 07.31.54 through 03.31.19. Subsequent 12-month return. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many have incorrectly warned that rising rates will prove fatal for equities, but six decades of returns data show that stocks in general have performed admirably both concurrent with and subsequent to increases in the Fed Funds rate, while Value stocks assert their dominance no matter which way the Fed is leaning in regard to monetary policy.

…which is also the case when the yield on the benchmark 10-year U.S. Treasury is falling…and rising.

AFAM a KOVITZ division

THE PRUDENT SPECULATOR
Δ in 10-Year & Value/Growth

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
1-Month Drop	555	15.6%	11.7%	14.8%	8.8%
1-Month Rise	545	10.8%	7.3%	6.3%	8.8%
3-Month Drop	523	13.8%	11.1%	13.5%	8.9%
3-Month Rise	573	12.7%	7.9%	7.7%	8.7%
6-Month Drop	524	13.3%	10.1%	12.3%	8.5%
6-Month Rise	566	13.2%	8.6%	8.7%	8.9%
12-Month Drop	534	12.3%	9.5%	11.2%	7.1%
12-Month Rise	544	14.2%	9.1%	9.5%	10.2%

From 06.30.27 through 03.31.19. Concurrent annualized 12-month returns. SOURCE: Kovitz Investment Group using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Payers	Non-Payers
1-Month Drop	548	15.1%	11.7%	12.4%	10.0%
1-Month Rise	541	11.4%	6.9%	8.3%	7.3%
3-Month Drop	521	15.8%	12.9%	13.0%	11.6%
3-Month Rise	566	11.0%	6.0%	7.9%	5.9%
6-Month Drop	524	15.3%	12.2%	12.4%	10.8%
6-Month Rise	560	11.3%	6.4%	8.3%	6.4%
12-Month Drop	534	13.0%	10.4%	10.5%	9.1%
12-Month Rise	544	13.3%	7.7%	9.8%	7.6%

From 06.30.27 through 03.31.19. Subsequent 12-month return. SOURCE: Kovitz Investment Group using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

It is interesting that so much attention is paid to changes in interest rates, when the numbers going back nine decades argue that Value stocks are the place to be no matter which direction the yield on the 10-year U.S. Treasury may be heading. True, dividend payers perform better when rates are declining, but returns have still been positive when rates rise.

Our optimism for undervalued equities notwithstanding, our followers should be well aware that we have always been equal opportunity stock pickers, with our selections not always fitting neatly into a Value or Growth box.

Value Rules, but We Don't Discriminate

Russell 3000 Growth/Value Index Membership

Company	% Wgt	Symbol	Company	% Wgt	Symbol
Russell 3000 Growth Index			**Russell 3000 Value Index**		
Microsoft	6.42	MSFT	JPMorgan Chase	2.57	JPM
Apple	6.28	AAPL	Berkshire Hathaway B	2.51	BRK/B
Amazon.com	5.20	AMZN	Exxon Mobil	2.26	XOM
Facebook	3.06	FB	Johnson & Johnson	2.13	JNJ
Alphabet C	2.20	GOOG	Procter & Gamble	1.90	PG
Alphabet A	2.16	GOOGL	Bank of America	1.82	BAC
Visa	2.04	V	Pfizer	1.73	PFE
Mastercard	1.60	MA	Cisco Systems	1.72	CSCO
Home Depot	1.57	HD	AT&T	1.69	T
UnitedHealth Group	1.56	UNH	Chevron	1.65	CVX
Boeing	1.30	BA	Verizon Comm	1.64	VZ
Pepsico	1.10	PEP	Intel	1.50	INTC
Netflix	1.02	NFLX	Merck & Co.	1.41	MRK
Coca-Cola	1.01	KO	Wells Fargo	1.36	WFC
Walt Disney	0.99	DIS	Comcast	1.32	CMCSA
Adobe	0.97	ADBE	Citigroup	1.15	C
PayPal Holdings	0.90	PYPL	Walmart	1.08	WMT
Accenture	0.79	CAN	Abbott Laboratories	1.00	ABT
Costco Wholesale	0.77	COST	Medtronic PLC	0.92	MDT
Union Pacific	0.75	UNP	McDonald's	0.90	MCD
Abbvie	0.74	ABBV	Oracle	0.86	ORCL
Salesforce.com	0.74	CRM	Philip Morris Int'l	0.85	PM
Texas Instruments	0.74	TXN	Thermo Fisher Scientific	0.77	TMO
Amgen	0.73	AMGN	United Technologies	0.73	UTX
Nike	0.69	NKE	Nextera Energy	0.68	NEE
Weight in Top 10	**32.09**		**Weight in Top 10**	**19.98**	
Weight in Top 25	**45.33**		**Weight in Top 25**	**36.15**	

Source: Kovitz Investment Group using data from Bloomberg Financial LP. As of 6.28.19

Though we decidedly favor companies that fall into the Value category, as evidenced by far more *TPS* names (those in green) on the right than the left, we do not exclude stocks that others, including the purveyors of the Russell indexes, would call Growth. Of course, we believe our purchases are always made at inexpensive valuations.

Historically, our brand of Value investing has found opportunity across numerous sectors and industries as there is no magic formula that applies to all companies. After all, simply relying on a Price to Book Value metric as a demarcation line would leave our portfolios stuffed with insurance companies and devoid of technology stocks, with two of our largest current holdings, **Microsoft** (MSFT – $133.96) and **Apple** (AAPL – $197.92), topping the weightings for the Russell 3000 Growth index.

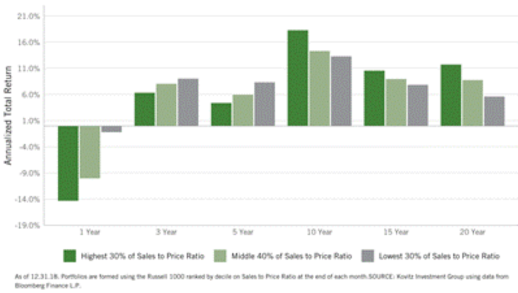
We are constantly crunching data and working to improve our analytics, with our recent additions of Free Cash Flow Yield and Return on Common Equity to our proprietary stock screening algorithm an illustration that there are Value factors that have not only done well over the long haul, but have also been decent performers in the short- to intermediate-term.

THE PRUDENT SPECULATOR
Factor Performance: Al Frank Calcs

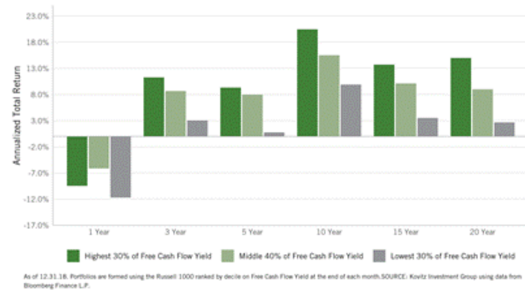
AFAM a KOVITZ division

Our own in-house number crunching shows that while it has been a tough five years for strategies focused on Value, with traditional factors such as Sales to Price and Earnings to Price performing poorly, our analytics also include metrices like Free Cash Flow Yield and Return on Common Equity that generally have performed better in the short run as well as the long term.

SALES

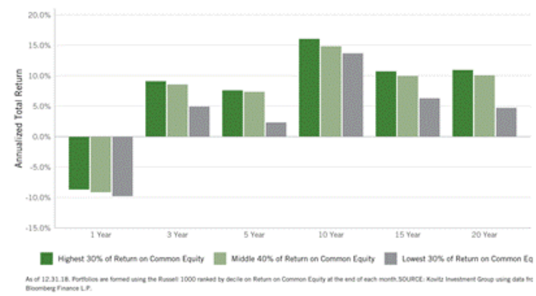


FCFY



EARNS

ROCE



That said, we know that we cannot simply live by numbers alone, as we combine the science of fundamental valuations…

THE PRUDENT SPECULATOR
Science – Fishing in the Right Pond

METRICS WE REVIEW:

FUNDAMENTAL PRICE-RELEVANT RATIOS	
Revenue	Tangible Book Value
Earnings	Dividend Yield
Earnings Before Taxes	Free Cash Flow Yield

ADDITIONAL MEASURES	
EV to EBITDA	Beta
Return on Equity	Stock Performance
EPS Growth	Momentum
Altman-Z Score	S&P Credit Rating

Pertinent metrics are consolidated into a stock scoring system that allows us track individual-stock peer-relative and market-relative valuation in the present and over time, providing a signaling framework for the next step in the process.

…with the art of business evaluation,…

THE PRUDENT SPECULATOR
Art – Qualitative Review

Once the screening algorithm has identified potentially undervalued names, the team sets out to utilize its years of experience in understanding the underlying businesses and the long-term potential to maintain and grow profitability:

"Computers are useless. They can only give you answers."
– Pablo Picasso

"The real danger is not that computers will begin to think like men, but that men will begin to think like computers. "
– Sydney J. Harris

"Man is still the most extraordinary computer of all."
– John F. Kennedy

To clarify risks and potential reward, focus shifts to higher-level QUALITATIVE aspects…

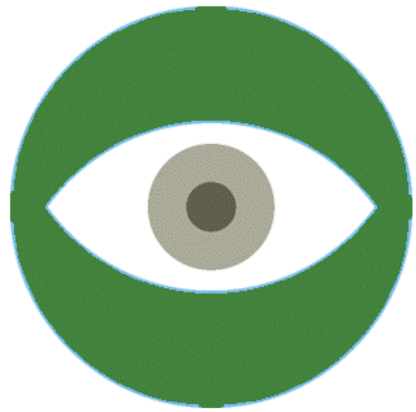
Financial Health
Brand Strength
Competitive Positioning
Intellectual Property Defensibility
Management Tenure
Product Breadth And Depth
Reporting Quality
Earnings Consistency
Growth Prospects
Analyst Favor/Disfavor
Cyclicality
•
•
•

…investing only in stocks that we believe have significant long-term total return (capital gains and dividends) potential, with our forward-looking calculations naturally including top- and bottom-line growth estimates.

THE PRUDENT SPECULATOR
Science & Art – Trading at a Discount

As our initial screening algorithm is primarily backward looking, all of our stocks that pass our initial quant and qual tests are also evaluated via a forward-looking process in which long-term 3-to-5 year Target Prices are established in order to whittle our coverage list down to the truly unique...the ones with the greatest potential reward...*so long as that REWARD is sufficient to cover the RISK one must assume in pursuit of the opportunity.*

aapl	$197.92	-1.82	-0.91%	52wk Low	$ 142.00	52wk High	$ 233.47		PREMIUM	
	Rec Date	Currency		**Bucket**	**Score**				**20**	
1.5982	10/6/2000	USD		***13***	***55.3***					
Latest Fins: 04.30.19						Prior 5Yr				
	STKDATA	Last	Growth	New	New	Last	**Year 3**	**Year 5**		
Sales	258,490	258,490	5%	258,490	2.00	2.00	**274,312**	**285,394**	Cash	37,988
EPS	11.86	11.86	8%	11.86	4.00	4.00	**13.34**	**14.42**	Other ST	42,104
BV	105,860	105,860	-3%	105,860	10.50	10.50	**142,830**	**174,399**	LT Invest	145,319
Shares Out	4,607.3	4,607.3	-5%	4,607.3	-2.00	-2.00	**4336.3**	**4164.6**	ST Debt	11,924
									Current Debt	10,505
METRICS	5Yr Gr Calc	Curr Mult	Future Multiple		Value				LT Debt	90,201
Sales/Share	68.53	3.53	3.25	3.25	*222.72*				**Net Cash/Sh**	**24.48**
EPS	14.42	16.69	16.00	16.00	*230.80*		UPDATE		Eff Tax Rate -3Q	**13.3**
BV/Share	41.88	8.61	5.50	5.50	*230.32*				Eff Tax Rate -2Q	**14.0**
	Div Per Shr	3.08	3.08	3.08	**Calc. Yield**				Eff Tax Rate -1Q	**16.5**
	Div Yield	1.6%	1.6%	1.6%	1.6%		RELOAD		Eff Tax Rate -0Q	**16.2**
									Buyback:	75000.0
Ratings			Last	New					BB Date	4/30/2019
S&P Rtg	AA+	**FV**	227.94	*227.94*			**6/28/2019**			4,228.3
S&P Out	STABLE	**Risk**	2.00	2		Buy Below			FCF Yield	6.3
Fitch Rtg	#N/A N/A	**BL**	140.11	*139.71*		167.65			EV/EBITDA	11.7
Fitch Out	#N/A N/A		*Last Update:*	*6/8/2019*			**Tier**	1	1	
Moody Rtg	WR									
Moody Out	STABLE		MarCap	911,874	LT EPS Gwth	9.4	TotDebt/Eq	106.85	NTM P/E	16.5
							COMPANY MULTIPLES			
Risk	Dis Rate	Upside			3yr	5yr	10yr	Latest	5yr Min	5yr Max
1	8.45%	50%		**P/S**	3.46	3.31	3.33	3.65	2.31	4.50
2	11.84%	75%		**P/E**	16.27	15.34	15.37	16.67	10.31	
3	14.87%	100%		**EPS GR**	12.19	16.56	31.48	-10.18	-23.12	47.77
4	17.61%	125%		**P/B**	6.58	6.00	5.31	8.61	3.94	10.02
5	20.11%	150%								



True, we have had to be more patient in recent years as the market has not always recognized the value inherent in the companies in which we are invested, given the trend toward passive investing, whereby many care little about the financial metrics of the companies that make up the indexes, assuming that they even know what companies might comprise a particular exchange traded fund (ETFs). Of course, the herd can stampede out of ETFs even faster than it enters,…

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THE PRUDENT SPECULATOR
AMZN: Not Immune from Downside Vol

No doubt, Amazon.com, given its hefty market-cap, has benefitted from investors plowing money into ETFs, but the exodus of those dollars, as seen it Q4 2018, can act as a loadstone due to its weight in the indexes.

…so we never forget what our founder Al Frank taught us, "We think of ourselves as partners in great corporations, growing in wealth as they prevail, rather than traders of pieces of paper."

And, as we are always focused on the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks, market disinterest in the short run often provides opportunities for Corporate America to buy back more equity, increasing our ownership percentage.

THE PRUDENT SPECULATOR
Corporate America Sharing the Wealth

While the market may not always show enthusiasm for **our stocks**, companies generally have a lot of free cash flow available to repurchase shares, often at discounted prices, and to pay out generous dividends.

S&P 500 20 LARGEST Q1 2019 BUYBACKS Company	Ticker	Sector	Q1 2019 Buybacks $ Million	12-Months Mar,'19 $ Million	12-Months Mar,'18 $ Million	5-Year Buybacks $ Million	10-Year Buybacks $ Million	Indicated Dividend $ Million
Apple	AAPL	Information Technology	$23,811	$75,149	$50,015	$234,736	$284,260	$13,769
Oracle	ORCL	Information Technology	$10,001	$35,307	$7,428	$66,641	$93,779	$3,445
Pfizer	PFE	Health Care	$8,865	$15,000	$6,063	$39,703	$72,808	$8,189
Bank of America	BAC	Financials	$6,263	$21,499	$14,944	$46,890	$51,552	$14,117
Cisco Systems	CSCO	Information Technology	$6,067	$22,790	$13,394	$50,022	$81,759	$5,679
JPMorgan Chase	JPM	Financials	$5,091	$20,403	$17,249	$59,556	$78,246	$10,478
Wells Fargo	WFC	Financials	$5,084	$22,712	$11,103	$62,045	$75,017	$5,795
Microsoft	MSFT	Information Technology	$4,753	$17,272	$10,124	$69,001	$108,382	$6,163
Citigroup	C	Financials	$4,413	$16,093	$15,544	$50,256	$53,683	$1,791
Eli Lilly	LLY	Health Care	$3,500	$6,551	$1,400	$10,045	$12,519	$7,995
Union Pacific	UNP	Industrials	$3,487	$10,546	$4,420	$24,876	$31,879	$6,145
Amgen	AMGN	Health Care	$3,032	$10,255	$13,462	$29,934	$48,711	$4,233
Alphabet	GOOG	Communication Services	$3,025	$9,927	$5,892	$22,419	$23,337	$0
UnitedHealth Group	UNH	Health Care	$3,002	$4,852	$3,468	$14,579	$28,367	$9,587
Booking Holdings	BKNG	Consumer Discretionary	$2,773	$8,025	$2,336	$15,325	$16,859	$4,199
Starbucks	SBUX	Consumer Discretionary	$2,714	$11,831	$4,259	$21,289	$23,828	$6,159
Boeing	BA	Industrials	$2,574	$8,605	$9,987	$38,655	$43,246	$0
Intel	INTC	Information Technology	$2,530	$11,346	$4,707	$33,877	$59,837	$1,750
Johnson & Johnson	JNJ	Health Care	$2,206	$6,630	$4,460	$35,129	$56,735	$3,609
Walgreens Boots Alliance	WBA	Consumer Staples	$2,201	$5,816	$7,288	$16,439	$22,373	$5,588
Top 20			**$105,392**	**$340,608**	**$207,543**	**$941,417**	**$1,267,178**	**$118,690**
S&P 500			**$205,811**	**$823,168**	**$575,299**	**$3,034,155**	**$4,878,688**	**$522,886**
Top 20 % of S&P 500			**51.21%**	**41.38%**	**36.08%**	**31.03%**	**25.97%**	**22.70%**

Source: Standard & Poor's. Gross values are not adjusted for float

Further, shareholders nowadays are often provided with generous income streams via dividends that have been and are likely to continue to be on an upward trend, adding tangible incentive to keep the faith, given that the stocks we own generally offer higher dividend yields.

THE PRUDENT SPECULATOR
Dividends Provide Handsome Income

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 6.20.19)	189	3	5	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.)	$62.02
2019 (Est.)	$58.06
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 6.28.19	

And, we continue to sleep well at night knowing that our portfolios trade for far more reasonable valuations than the major equity averages,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	13.1	11.8	1.1	1.9	3.0
Select Value	13.7	12.2	1.2	2.0	2.7
Select Dividend	13.5	12.1	0.9	1.9	3.3
Select Focused Dividend	12.4	11.6	0.9	2.2	3.4
Select Focused Value	14.2	12.7	1.3	2.3	2.7
Select SMID Dividend	12.7	11.5	0.6	1.5	3.2
Russell 3000	20.3	18.2	2.0	3.2	1.9
Russell 3000 Growth	25.7	22.7	2.9	6.9	1.3
Russell 3000 Value	16.6	15.1	1.5	2.0	2.6
Russell 1000	19.7	17.9	2.1	3.3	2.0
Russell 1000 Growth	24.5	22.0	3.1	7.4	1.4
Russell 1000 Value	16.3	15.0	1.6	2.1	2.6
S&P 500 Index	19.2	17.6	2.2	3.4	1.9
S&P 500 Growth Index	25.2	22.1	3.8	5.7	1.4
S&P 500 Value Index	15.1	14.3	1.5	2.3	2.5
S&P 500 Pure Value Index	11.6	10.6	0.6	1.3	2.8

As of 06.28.19. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…while we think it much better to remain disciplined in our focus on Value, rather than give in to somehow attempt to justify the purchase of richly-priced companies, many of which have accounted for a significant part of the gains in the broad market this year.

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THE PRUDENT SPECULATOR
Growth Stocks Have Led the '19 Charge

S&P 500 Top 25 Contributors to Total Return - H1 2019

Symbol	Company	Current SPY Weight	CTR SPY YTD Return	Price to Earnings Ratio (P/E)	Forward P/E Ratio	Price to Sales Ratio (P/S)	Price to Book Ratio (P/B)	Dividend Yield
MSFT	Microsoft	3.86	1.18	29.7	26.3	8.4	10.8	1.4
AAPL	Apple	3.47	0.86	16.7	15.9	3.5	8.6	1.6
AMZN	Amazon.com	3.09	0.76	58.0	51.3	3.8	19.3	0.0
FB	Facebook	1.73	0.69	19.2	20.2	9.4	6.4	0.0
V	Visa	1.15	0.34	36.3	28.9	nmf	13.2	0.6
MA	Mastercard	0.89	0.32	38.5	31.8	nmf	52.4	0.4
CSCO	Cisco Systems	0.98	0.26	18.5	16.2	4.6	6.4	2.6
JPM	JPMorgan Chase	1.50	0.25	12.1	10.8	nmf	1.6	2.9
DIS	Walt Disney	0.86	0.24	20.5	21.5	3.5	2.8	1.3
PG	Procter & Gamble	1.08	0.22	26.1	23.1	4.2	5.1	2.6
C	Citigroup	0.66	0.22	10.3	8.7	nmf	0.9	2.6
NFLX	Netflix	0.65	0.22	107.4	79.6	9.6	28.2	0.0
XOM	Exxon Mobil	1.38	0.21	17.6	16.5	1.2	1.7	4.5
T	AT&T	0.97	0.21	9.5	9.3	1.3	1.3	6.1
BAC	Bank Of America	1.10	0.21	10.6	9.7	nmf	1.1	2.1
HD	Home Depot	0.92	0.21	20.6	19.8	2.1	nmf	2.3
CMCSA	Comcast	0.77	0.18	15.7	13.3	1.9	2.6	2.0
PYPL	PayPal Holdings	0.51	0.17	43.5	35.2	8.5	8.9	0.0
CVX	Chevron	0.97	0.17	15.4	15.2	1.5	1.5	3.7
ADBE	Adobe	0.55	0.16	41.5	33.0	14.3	14.4	0.0
HON	Honeywell Int'l	0.49	0.15	19.4	20.6	3.2	6.8	1.8
JNJ	Johnson & Johnson	1.55	0.15	16.9	15.7	4.5	6.3	2.7
ORCL	Oracle	0.57	0.15	16.1	14.6	4.8	8.8	1.7
PEP	Pepsico	0.73	0.15	23.7	22.8	2.9	13.0	2.9
GE	General Electric	0.36	0.14	16.9	17.3	0.8	2.6	1.4
	S&P 500 ETF (SPY)			**19.2**	**16.8**	**2.2**	**3.4**	**1.9**
	TPS Portfolio			**13.1**	**11.8**	**1.1**	**1.9**	**3.0**

Source: Kovitz Investment Group using data from Bloomberg Financial LP. As of 6.28.19

We have found Value in 12 of the top 25 contributors to the S&P 500's total return thus far in 2019, but our weightings in Microsoft and Apple are well below that of the index, so the two stellar tech performers have actually hurt our relative returns.

Yes, we know that Berkshire Hathaway decided to buy Amazon.com this year, but we note that it was not the legendary Value investors Warren Buffett or Charlie Munger that pulled that trigger. Further, we might argue that Oracle of Omaha's investment vehicle succumbing to the Amazon siren song might just be the seminal contrarian event that presages the Value renaissance!

After all, the shares are off 3.5% as of this writing from the closing price on May 4, the day Mr. Buffett disclosed, "One of the fellows in the office that manage money…bought some Amazon, so it will show up in a filing later this month." Not surprisingly, we would need Amazon to fall a lot further than 3.5% to even consider a purchase, but we might start to see Value, assuming the very unlikely prospect that nothing changed in the current financial fundamentals or present business prospects between now and then, were the stock to dip below $1,400.

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 four of our companies that had news last week that was of sufficient importance to trigger a review of its Target Price.

Shares of **Bristol-Myers Squibb** (BMY – $45.35) fell more than 8% last week after the pharmaceutical giant announced the somewhat surprising news that it would delay the closing of the deal as it will spin off Celgene's blockbuster psoriasis and arthritis drug Otezla, with projected sales of nearly $2 billion in 2019, in order to address Federal Trade Commission (FTC) antitrust concerns over the acquisition of the big biotech concern. Bristol also disclosed a disappointing clinical trial result from a late-stage study of its immunotherapy superstar Opdivo in liver cancer.

On the Celgene news, the company explained, "Bristol-Myers Squibb is committed to working with regulatory authorities around the world on the proposed combination with Celgene. The company is focused on realizing the promise of the transaction, and is continuing to work to complete the transaction on a timely basis…Bristol-Myers Squibb reaffirms the significant value creation opportunity of the acquisition of Celgene. Together with $2.5 billion of cost synergies, a compelling pipeline and a strong portfolio of marketed products, the company continues to expect growth in sales and earnings through 2025…The company is continuing to develop its promising immunology pipeline asset, tyrosine kinase 2 (TYK2) inhibitor, in several autoimmune diseases, including psoriasis. Bristol-Myers Squibb looks forward to advancing its leadership in core areas of focus, including immunology, and delivering highly innovative medicines that bring meaningful benefits to patients as a combined company."

On the Opdivo news, which is focusing on additional uses, while the study did not reach its pre-specified primary endpoint, BMY felt the results showed a clear trend towards improvement for patients treated with Opdivo compared to sorafenib, a current standard of care. "We are encouraged by the promising efficacy and safety trends seen with Opdivo in CheckMate -459, especially as HCC is a devastating and difficult-to-treat cancer, for which there have been no significant advances over sorafenib, a standard treatment, in more than a decade," said Bruno Sangro, M.D., head of the Liver Unit, Clínica Universidad de Navarra, Pamplona, Spain.

Ian M. Waxman, M.D., development lead, Gastrointestinal Cancers, Bristol-Myers Squibb, commented, "We remain confident in the important role of Opdivo for the treatment of patients with HCC and look forward to evaluating insights garnered from this trial with the goal of ensuring patients with liver cancer have the opportunity to achieve the best possible outcomes."

While we obviously would have been happier to see the Opdivo study turn out different, the drug is still a major growth driver for the coming years and could potentially be used in other areas. The sale of Otezla was unexpected, and it also was likely to be a major growth driver going forward. Of course, some estimate that the sale could fetch as much as $10 billion, which would very much help to defray a sizable chunk of the Celgene acquisition cost, while we note that Bristol's own TYK2 does target psoriasis. True, we wanted to see the deal close in Q3 of this year as previously thought, so that the realization of synergistic operational savings and the removal of the merger distraction could begin sooner.

That said, we continue to like BMY's valuation and 3.6% dividend yield. We also like that a large portion of Bristol's late-stage pipeline focuses on immunology and cancer indications, areas with strong pricing power and where the FDA has been aggressively approving drugs. BMY has a heritage of supporting its pipeline by bringing in partners to share the development costs and diversify the risks of clinical and regulatory failure. We also think the Celgene purchase will be a long-term positive, as it moves Bristol further into the specialty pharma segment. All things considered, our BMY Target Price has been trimmed to $66.

Walgreens Boots Alliance (WBA – $54.67) shares rose more than 4% last week after an upbeat quarterly financial release that left investors thinking that the retail drugstore giant might be getting back on track. Adjusted earnings per share for fiscal Q3 came in at $1.47, outpacing the expected result of $1.43. Revenue for the period came in at $34.59 billion, versus the consensus estimate of $34.44 billion. The quarter was helped by stronger prescription volumes and accelerated share repurchases. Despite higher volumes, gross margin was a bit below expectations because of an increasing mix shift toward central pharmacy and branded drugs, which generate lower margins.

CEO Stefano Pessina commented, "Following a difficult second quarter, we made progress in the third quarter against the strategic goals we set, and are pleased to report an improvement in our U.S. comparable growth compared with the first half of the year. We will continue our aggressive response to rapidly shifting trends, and have already seen improved U.S. retail sales and prescription growth and are making good progress in implementing our Transformational Cost Management Program. Together, this gives us the confidence to reiterate the fiscal 2019 guidance we previously provided."

While we were pleased to see better results from WBA, we know that the backdrop in the retail pharmacy space is likely to remain challenging due to ongoing reimbursement pressures and competitive headwinds. However, we believe some of the changes being made will be beneficial and the lowered expectations and pessimistic investor stance will ultimately lead to some upward momentum as the company delivers improved results, helped by store-optimization initiatives, a transformational cost-management program and digitization efforts.

We also continue to believe that over the long term, WBA will benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations. WBA typically generates solid free cash flow and we expect the dividend payout (the yield is currently 3.2%) to continue to rise over the ensuing years. Our Target Price for WBA presently stands at $100, but we note that the stock now trades for just 9.2 times NTM earnings projections.

Memory maker **Micron Technology** (MU – $38.59) posted earnings per share of $1.05, versus the $0.78 estimate, in fiscal Q3 2019. MU had total revenue of $4.8 billion, versus the $4.7 billion estimate. Since the release, shares have risen 18.8% and lifted others companies in the memory space like Western Digital and **Seagate Technology** (STX – $47.12).

Micron said it has resumed some of its shipments to Huawei Technologies, a company that has been a target of President Trump's trade battle, while this weekend we learned that the White House made the decision to allow Huawei to buy U.S. products, "at the request of American high-tech companies." Last week, U.S. Treasury Secretary Steve Mnuchin told CNBC that the U.S. might be willing to let up on the next round of tariffs depending on the outcome of the meeting between President Trump and China's President Xi Jinping, so we are not sure how much more near-term enthusiasm there will be for the shares on this weekend's developments, though the equity futures this morning were pointing upward.

CEO Sanjay Mehrotra explained on the earnings call, "I want to provide some comments related to Huawei. As you know, effective May 16, the U.S. Commerce Department's Bureau of Industry and Security, or BIS, added Huawei and 68 of its non-U.S. affiliates to the BIS entity list. To ensure compliance, Micron immediately suspended shipments to Huawei and began a review of Micron products sold to Huawei to determine whether they are subject to the imposed restrictions. Through this review, we determined that we could lawfully resume shipping a subset of current products because they are not subject to export administration regulations and entity list restrictions. We have started shipping some orders of those products to Huawei in the last 2 weeks. However, there is considerable ongoing uncertainties surrounding the Huawei situation, and we are unable to predict the volumes or time periods over which we will be able to ship products to Huawei. Micron will continue to comply with all government and legal requirements, just as we do in all our operations globally. Of course, we cannot predict whether additional government actions may further impact our ability to ship to Huawei"

Mr. Mehrotra continued, "Turning to the market outlook for DRAM. We have seen early signs of bit demand recovery in most DRAM end markets. Based on our assessment of customer inventory improvement, we anticipate robust bit demand growth for the industry in the second half of the calendar year compared to the weak demand in the first half. Our view of calendar 2019 industry DRAM bit demand growth is in the mid-teens, with industry supply growing mid to high-teens. Despite early signs of recovery in DRAM bit demand, the excess supply and resulting higher producer inventory levels have created a challenging pricing environment. We expect that the strengthening demand growth will begin to contribute to an improving trend in producer inventory later in calendar 2019. On the supply side, our focus continues to be on taking prudent steps to help bring the DRAM market back to stabilization. We are continuing the previously announced wafer start reductions of approximately 5%, which we expect will bring our DRAM bit supply growth for calendar 2019 close to market demand growth. The overall NAND market remains oversupplied from the accelerated supply growth driven by the industry transition from 2D NAND production to 3D NAND. While we still believe the NAND industry supply is growing above demand this year, the market is showing signs of increased elasticity stemming from recent price declines. We are optimistic that the overall NAND market will start to stabilize in the second half of calendar 2019."

CFO Dave Zisner added, "We expect revenue to be in the range of $4.5 billion, plus or minus $200 million; gross margin to be in the range of 29%, plus or minus 150 basis points; and operating expenses to be approximately $785 million, plus or minus $25 million. Based on a share count of approximately 1.13 billion fully diluted shares, we expect EPS to be $0.45, plus or minus $0.07."

MU finished the quarter with approximately $2.9 billion in net cash and $10 billion of total liquidity. Analysts expect the company to earn $6.16 in fiscal 2019 (down from $10.14 on Dec. 3) and $2.64 in 2020 (down from $9.23 on Dec. 3). MU shares have been on the volatile end of the spectrum, but we think that an improving global macroeconomic backdrop and possible resolution of the U.S.-China trade spat would improve MU's near-term results. It's no secret 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 6 times the 2019 and 15 times the 2020 arguably-trough EPS estimates. Micron has returned $2.7 billion to shareholders via buybacks thus far in fiscal 2019, while reducing the overall share count by 8% since fiscal Q3 2018. Our Target Price for MU has been bumped up to $67.

Air freight and logistics leader **FedEx** (FDX – $164.19) earned $5.01 per share in fiscal Q4 2019 (vs. $4.81 est.). FDX had sales of $17.8 billion (vs. $17.8 billion est.). Since the release, shares moved up 6.1% propelled by the earnings announcement, even as the company also recently said that it is opting to not renew its contract with online-retail giant and web services company, Amazon, and FedEx has been caught in the cross-hairs of the U.S.-China trade skirmish.

For fiscal 2020, FedEx expects a mid-single-digit percentage point decrease in EPS excluding the estimated TNT Express integration expenses. FDX expects a higher tax rate, in the range of 23% to 25%, with capital expenditures of $5.9 billion for the year.

Chairman Fred Smith commented, "We faced weakening international revenue growth driven by the slowdown in global trade, a less favorable service mix of TNT Express business after the NotPetya's cyberattack and continued rapid growth of e-commerce demand. FedEx enters fiscal 2020 with a sharp focus on extending our lead as the premier global transport and logistics company and on making the necessary investments today to capture the significant market opportunities we see for the future. Global trade disputes and low global growth rates create significant uncertainty for the express business leading us to be cautious in projecting FY '20 earnings for this segment. The integration of TNT is now progressing at a good clip and we will see significant benefits by this time in summer 2021. Major focus of our investment strategy, I should note, is also improve sustainability and efficiency. We intend to substantially grow our e-commerce business and are well aware improved profitability in this market requires great efficiency in delivering residential packages and we have sound initiatives to steadily improve our cost to serve this market."

COO Raj Subramaniam said, "Beyond fiscal year 2020, our work will continue with key initiatives, including customer migration, air network integration and product rationalization. We are focused on the long-term and I'm humbled by the ongoing commitment, dedication and innovation by our more than 450,000 team members around the world."

CFO Alan Graf discussed Amazon, "Our strategic decision to not renew the FedEx Express U.S. domestic contract with Amazon will also be a near-term headwind, which we expect to reverse to a positive in FY '21 as we replace the lost volume and optimize the network. Additionally, we do not expect a significant benefit from this fuel surcharge table changes in FY '19 to repeat in FY '20." FDX's Amazon-related revenue accounted for less than 1.3% of sales, according to data from FedEx and Bloomberg, dampening the negative impact. More importantly, Amazon's cut-throat supply chain management makes it unlikely for their shipments to have sizable margins. Thus, from a profitability standpoint, we think it's even less of an issue.

We continue to like FedEx's strong balance sheet, modest dividend yield and position as an industry leader. FDX continues to renew its massive fleet, bringing in new-build 767F and 777F airplanes and sending the expensive-to-operate MD-10/11's to the desert. The payoff won't be as quick for FedEx, given that cargo carriers have fleet utilization well below passenger carriers (which is why FDX was able to profitably fly airplanes that airlines took out of service long ago). But we think that scooping up new planes at great prices is a solid move, such as the great deal it made for more than 100 767's, enabling Boeing to keep the line open as the company ironed out the KC-46 contract with the U.S. government. FDX trades at a reasonable 11.1 times NTM earnings and EPS expectations for the next three fiscal years presently stand at $15.22, $16.35 and $17.87, respectively. With seemingly positive developments on the China trade front this weekend, our Target Price for FDX is now $281.