Market Commentary Monday, August 12, 2019

August 12, 2019

EXECUTIVE SUMMARY

Roller-Coaster Week – "No Good Explanation"
Volatility Perspective – Thirty 5% Setbacks Over the Last Decade
Scary Events – Secret to Success in Stocks
Markets in Turmoil – CNBC to the Rescue
Sentiment – AAII Buy Signal
Big Reason for Optimism – Interest Rates Plunge
Reviews Still Pending – TPC & SYMC
Stock Updates – HSBC, MOS, DIS, COHU, DPSGY, DOC, TSN, CAH, ALB & CVS

Market Review

While the trading week just completed started and finished on low notes related to the trade skirmish with China, in between we were again reminded that the only problem with market timing is getting the timing right. As the *Associated Press* wrote on Saturday:

To anyone not paying attention, the numbers could paint the last week as a ho-hum one for markets: The S&P 500 was down just 0.5%. But that stretch included the worst plunge of the year for the S&P 500, as well as its best day in months.

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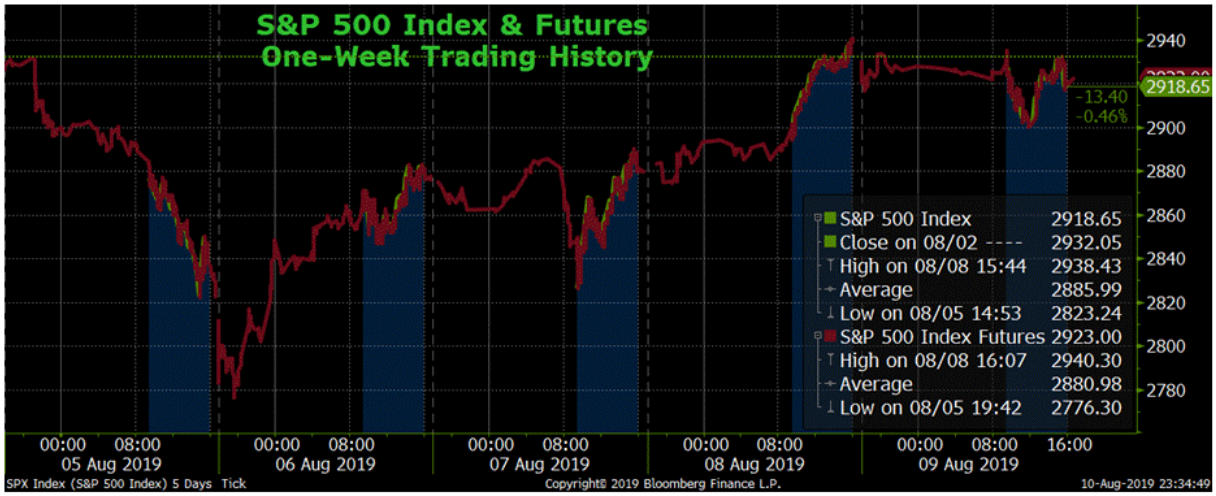
THE PRUDENT SPECULATOR
Volatility Depends on the Time Horizon

While the equity markets did not have a great first full week of August trading, even as the S&P 500 ended the five days down only 0.5%, stocks endured quite a roller-coaster ride, especially considering that at its worst level from the 8.2.19 close, the S&P was off 3.7% on 8.5.19, while the S&P futures plunged 5.3% at their nadir later that evening.



Through the week, investors' mood pinballed from fear that China was raising the stakes in the trade war by weakening its currency to relief that the yuan's drop wasn't more sharp and back to concern that the U.S. and China may not even meet next month to talk about their problems. All of that was follow-up to Trump's threat last week to impose more tariffs on Chinese goods.

Underscoring the uncertainty, investors said they had no good explanations for some of the sharp swings that stocks had over the last week.

Of course, no good explanation is often the case as commentators grasp for rationale to explain the gyrations, sometimes using similar news to account for stocks moving up as they do for stocks moving down. For example, trade hostilities escalated and equity prices plunged on Monday after the U.S. called China a currency manipulator and the yuan-t0-dollar exchange rate moved above 7, but stocks enjoyed one of their best days of the year on Thursday even as Beijing pegged the yuan higher against the dollar still.

While we certainly do not want to minimize the risks associated with trade, and it is hard to imagine the Middle Kingdom or Washington backing down anytime soon, the recent declines represented the 30th dip of more than 5% in the S&P 500 just since the end of the Financial Crisis,…

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THE PRUDENT SPECULATOR
Ups and Downs Aplenty…Just Since '09

S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Opposite Direction

2/9/2009	3/9/2009	-22.23%	BEAR	3/9/2009	3/26/2009	23.11%	BULL
3/26/2009	3/30/2009	-5.44%	BEAR	3/30/2009	6/12/2009	20.15%	BULL
6/12/2009	7/10/2009	-7.09%	BEAR	7/10/2009	10/19/2009	24.89%	BULL
10/19/2009	10/30/2009	-5.62%	BEAR	10/30/2009	1/19/2010	11.01%	BULL
1/19/2010	2/8/2010	-8.13%	BEAR	2/8/2010	4/23/2010	15.19%	BULL
4/23/2010	5/7/2010	-8.74%	BEAR	5/7/2010	5/12/2010	5.47%	BULL
5/12/2010	6/7/2010	-10.34%	BEAR	6/7/2010	6/18/2010	6.38%	BULL
6/18/2010	7/2/2010	-8.49%	BEAR	7/2/2010	8/9/2010	10.29%	BULL
8/9/2010	8/26/2010	-7.14%	BEAR	8/26/2010	2/18/2011	28.25%	BULL
2/18/2011	3/16/2011	-6.41%	BEAR	3/16/2011	4/29/2011	8.49%	BULL
4/29/2011	6/15/2011	-7.20%	BEAR	6/15/2011	7/7/2011	6.94%	BULL
7/7/2011	8/8/2011	-17.27%	BEAR	8/8/2011	8/15/2011	7.60%	BULL
8/15/2011	8/19/2011	-6.72%	BEAR	8/19/2011	8/31/2011	8.49%	BULL
8/31/2011	9/9/2011	-5.30%	BEAR	9/9/2011	9/16/2011	5.35%	BULL
9/16/2011	10/3/2011	-9.60%	BEAR	10/3/2011	10/28/2011	16.91%	BULL
10/28/2011	11/25/2011	-9.84%	BEAR	11/25/2011	4/2/2012	22.47%	BULL
4/2/2012	6/1/2012	-9.94%	BEAR	6/1/2012	9/14/2012	14.69%	BULL
9/14/2012	11/15/2012	-7.67%	BEAR	11/15/2012	5/21/2013	23.34%	BULL
5/21/2013	6/24/2013	-5.76%	BEAR	6/24/2013	1/15/2014	17.50%	BULL
1/15/2014	2/3/2014	-5.76%	BEAR	2/3/2014	9/18/2014	15.47%	BULL
9/18/2014	10/15/2014	-7.40%	BEAR	10/15/2014	3/2/2015	13.69%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	9/16/2015	6.84%	BULL
9/16/2015	9/28/2015	-5.69%	BEAR	9/28/2015	11/3/2015	12.12%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	6/23/2016	5.64%	BULL
6/23/2016	6/27/2016	-5.34%	BEAR	6/27/2016	1/26/2018	43.60%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	3/9/2018	7.96%	BULL
3/9/2018	4/2/2018	-7.35%	BEAR	4/2/2018	9/20/2018	13.55%	BULL
9/20/2018	11/23/2018	-10.17%	BEAR	11/23/2018	12/3/2018	5.99%	BULL
12/3/2018	12/24/2018	-15.74%	BEAR	12/24/2018	4/30/2019	25.30%	BULL
4/30/2019	6/3/2019	-6.84%	BEAR	6/3/2019	7/24/2019	10.02%	BULL
7/24/2019	8/5/2019	-5.99%	BEAR				
	Average Drop	**-8.87%**	**BEAR**		**Average Increase**	**14.56%**	**BULL**

While the S&P 500 skidded 6.8% during an ugly May, and fell 6.0% from late-July to early-August, we suspect that few realize that these were the 29th and 30th pullbacks of 5% or more without an intervening 5% recovery just since the Financial Crisis market low on March 9, 2009. Happily, the returns in the 30 periods where the S&P has gained more than 5% have dwarfed the losses.

…while there have been plenty of arguably greater headwinds overcome over the past decade,…

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THE PRUDENT SPECULATOR
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	159%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	124%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	143%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	104%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	105%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	76%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	59%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%		46%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%		44%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		41%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		39%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		45%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		41%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		55%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		38%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%			36%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**72%**	**72%**

Source: Kovitz Investment Group using data from Bloomberg. As of 8.9.19

…and throughout history.

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THE PRUDENT SPECULATOR
Lots of Frightening Events

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	33525%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	19358%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	17387%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	6750%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	7388%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5356%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4093%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3769%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3067%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4070%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2674%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2872%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2343%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1703%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1093%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1198%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	823%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	675%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	609%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	558%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	539%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	478%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	233%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	204%
Clinton Impeachment Proceeding	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	137%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	117%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	202%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	219%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	167%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	144%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	331%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**19%**	**41%**	**68%**	**3938%**

As of 8.9.19. Source: Kovitz Investment Group using Bloomberg and Ned Davis Research Events & Reaction Dates

History is filled with plenty of disconcerting events, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

That does not mean that the recent turbulence won't continue nor that stocks will not suffer a larger pullback, especially as downturns, corrections and even Bear Markets are a very normal part of the investment process, but those who stick with equities through thick and thin historically have been rewarded with very handsome long-term gains.

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Volatility is Normal: Value/Divs Win Race

Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	108.4%	928	26	3.5	3/9/2009	7/24/2019
17.5%	66.6%	575	38	2.4	12/24/2018	7/26/2019
15.0%	66.3%	559	44	2.1	12/24/2018	7/26/2019
12.5%	43.9%	333	71	1.3	12/24/2018	7/26/2019
10.0%	34.5%	242	97	0.9	12/24/2018	7/26/2019
7.5%	23.4%	148	154	0.6	12/24/2018	7/26/2019
5.0%	14.7%	72	299	0.3	6/3/2019	7/26/2019

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-34.3%	371	25	3.6	1/6/2009	3/9/2009
-17.5%	-30.3%	222	37	2.4	9/20/2018	12/24/2018
-15.0%	-28.3%	192	43	2.1	9/20/2018	12/24/2018
-12.5%	-22.6%	140	70	1.3	9/20/2018	12/24/2018
-10.0%	-19.5%	103	96	0.9	9/20/2018	12/24/2018
-7.5%	-15.4%	65	153	0.6	9/20/2018	12/24/2018
-5.0%	-10.9%	37	299	0.4	7/26/2019	8/5/2019

From 02.20.28 through 8.5.19. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz Investment Group using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	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%	4.4%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 06.30.19. 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. 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

Indeed, the key to success in stocks is not to get scared out of them, but staying the course is easier said than done these days,…

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THE PRUDENT SPECULATOR
Managing Emotions a Challenge

While we have come to believe that there isn't a camera for which he won't pose, there may be no better visual aid to remind folks that investing is an emotional roller coaster than Wall Street's most photographed trader (per *Marketwatch*) Peter Tuchman. Incredibly, it was just a month ago that Mr. Tuchman was positively giddy about the Dow breaking through 27,000, yet a few weeks later he had seemingly pulled all of his hair out as stocks plunged after an escalation in the trade skirmish.

…especially given the sensationalistic media climate in which we dwell. And, on that score, we actually were happy to see our friends at *CNBC* decide this past Monday to run another of their *Markets in Turmoil* Special Reports,…

…with those shows, such as the one highlighted below from August 2011, generally focused more on how investors might protect themselves,…

Tonight, fear and uncertainty grip the world markets, and everything is spiraling out of control. What can you do to keep your money safe? Everything you need to know. A CNBC Special Report, "Markets in Turmoil!" 8:00 Eastern, Tonight.

…rather than on the long-term opportunities (take a look at where the indexes then resided) that the inevitable trips south can provide.

CNBC August 2011

CNBC May 2010

CNBC Aug 2015

Happily, given our contrarian way of thinking, the latest *CNBC's Markets in Turmoil* buy signal was echoed by the most recent (as of 8.7.19) Sentiment Survey from the American Association of Individual Investors as the number of Bears more than doubled from the week prior to 48.2%, while the number of Bulls skidded by 16.8 percentage points to 21.7%.

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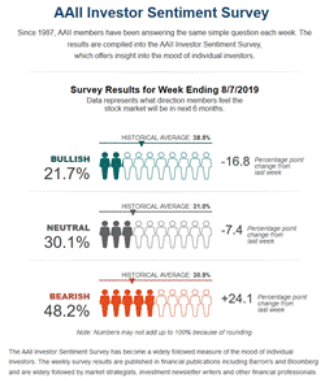
AAII Sentiment – Contrarian Gauge

Bullish sentiment, expectations that stock prices will rise over the next six months, plunged 16.8 points to 21.7%. Optimism was last lower on 12.12.18 (20.9%). Historically, the S&P 500 index has experienced above-average and above-median returns during the six- and 12-month periods following unusually low readings. Bearish sentiment, expectations that stock prices will fall over the next six months, jumped 24.1 points to 48.2%. Pessimism was last higher on 12.26.18 (50.3%).



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	839	0.24%	0.20%	1.15%	1.02%	3.24%	2.85%	6.58%	5.85%
ABOVE	8.49	62.86	805	0.16%	0.14%	0.49%	0.41%	2.02%	1.79%	4.60%	4.12%
	Ten Groupings of 1644 Data Points										
1	-54.0	-14.3	164	0.31%	0.25%	1.24%	0.99%	4.21%	3.59%	8.22%	6.84%
2	-14.3	-7.0	167	0.45%	0.42%	1.37%	1.25%	4.06%	3.73%	7.36%	6.76%
3	-6.8	-0.9	166	0.28%	0.25%	1.61%	1.52%	3.27%	2.88%	6.84%	6.15%
4	-0.9	3.4	160	0.14%	0.12%	1.10%	1.02%	2.52%	2.19%	5.99%	5.57%
5	3.4	8.0	171	0.01%	-0.02%	0.46%	0.36%	2.41%	2.15%	4.88%	4.35%
6	8.1	12.3	157	0.14%	0.13%	0.46%	0.38%	1.78%	1.55%	4.72%	4.21%
7	12.4	16.9	162	0.17%	0.15%	0.89%	0.80%	2.74%	2.53%	5.56%	5.13%
8	17.0	22.2	163	0.18%	0.16%	0.62%	0.54%	1.99%	1.71%	5.76%	5.31%
9	22.4	30.0	169	0.13%	0.12%	0.29%	0.20%	2.17%	1.92%	4.53%	3.94%
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 8.8.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

More importantly, by our way of thinking, a lot of the money that bailed out of equities early last weekwas plowed into fixed income, with the yield on the 10-year U.S. Treasury sinking to 1.74% as of Friday's close. The plunge in rates, in our view, adds to the appeal of stocks in general, with the S&P 500 looking very attractive from both an earnings and income perspective,…

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Interest Rates Very Supportive of Stocks

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 5.24%.

…and our portfolios in particular, given their very low P/E ratios (high earnings yields) and generous divided yields.

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THE PRUDENT SPECULATOR
Managed Account Ports & Benchmarks

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	12.7	11.6	1.0	1.8	3.2
Select Value	13.2	11.9	1.1	1.9	2.8
Select Dividend	13.2	11.9	0.9	1.9	3.5
Select Focused Dividend	12.1	11.3	0.9	2.0	3.6
Select Focused Value	13.5	12.5	1.3	2.2	2.8
Select SMID Dividend	12.4	11.5	0.6	1.5	3.2
Russell 3000	20.5	18.5	2.0	3.1	1.9
Russell 3000 Growth	27.7	24.0	3.1	7.8	1.2
Russell 3000 Value	16.0	14.8	1.4	1.9	2.6
Russell 1000	19.8	18.1	2.1	3.2	1.9
Russell 1000 Growth	26.2	23.2	3.3	8.2	1.2
Russell 1000 Value	15.7	14.7	1.5	2.0	2.6
S&P 500 Index	19.1	17.6	2.1	3.3	1.9
S&P 500 Growth Index	24.9	22.1	3.7	5.6	1.4
S&P 500 Value Index	15.0	14.3	1.4	2.2	2.5
S&P 500 Pure Value Index	11.2	10.4	0.6	1.2	2.9

As of 08.10.19. 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.

To be sure, our optimism for the prospects of our broadly diversified portfolios over the next three-to-five years does not mean that there won't be more selling in the near term, and the equity futures were bouncing between up and down for today's trading as these comments were being penned, but we continue to think that historically low interest rates, a friendly Federal Reserve, generally healthy corporate profits and a decent economic backdrop are all supportive of higher stock prices in the long run.

Stock Updates

The investment team is focused heavily on what to do about our holdings in construction concern **Tutor Perini** (TPC – $9.98) and security software company **Symantec** (SYMC – $22.99), so we will save a discussion of the pair until we have finalized our conclusions.

There were plenty of other market-moving second quarter numbers to discuss, and Chris Quigley and Jason Clark offer updates on numerous companies that had news last week that was of sufficient importance to trigger a review of their Target Price. 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/.

Globally diversified bank **HSBC Holdings PLC** (HSBC – $37.78) posted earnings per share of $0.99, versus the $1.03 estimate, in fiscal Q2 2019. Shares rose less than 1% after the announcement and were down 4% for the week, as the company reported that John Flint, the CEO for just 18 months, would leave the company. While details surrounding Mr. Flint's departure were scarce, it was reported by the *Financial Times* that the reasoning was simple, "[the board] felt he was not up to the job." Citi analyst Ronit Ghose suggested that the job is far from easy, "You almost need a Marvel superhero to run the bank."

Chairman Mark Tucker said, "In the increasingly complex and challenging global environment in which the bank operates, the Board believes that a change is needed to make the most of the significant opportunities ahead of us. That is the reason we've initiated a process to find a new Group Chief Executive. And we'll be considering both internal and external candidates."

CFO Ewen Stevenson commented on the quarter, "We continue to show good top-line volume and revenue growth. We've made real progress in moderating cost growth. Credit conditions remain below long-term trends, and both profits and returns are growing. The billion-dollar buyback announcement is a clear signal of our continued commitment to active capital management. But given the change dollar block interest rate outlook, we're now facing a weaker revenue outlook for most of our businesses and we are operating with higher geopolitical uncertainty across various markets. So while we're pleased with these results, we recognize the outlook has softened and we need to and are taking action to adjust for this."

Shares of HSBC have struggled this year, with the bank having trouble navigating the trade skirmishes, interest rate fluctuations, geopolitical unrest (particularly in Hong Kong), Brexit uncertainty and other headwinds. While we do not place blame squarely on Mr. Flint for the bank's underperformance, we think that a new Chief along with some structural and staffing changes would do significant good. We like the bank's global footprint, which gives it the unparalleled ability to offer services around the world and believe HSBC's exposure to higher economic growth markets, as well as continued cost-cutting initiatives and efforts to improve operational efficiencies, should eventually boost the bottom line. Shares currently yield 6.7% and our Target Price now stands at $53.

Fertilizer and agricultural chemical firm **Mosaic Co.** (MOS – $22.60) earned $0.12 per share in fiscal Q2 2019 (vs. $0.29 est.). MOS had sales of $2.2 billion, versus the $2.3 billion estimate. Shares slid 6.7% following the announcement, as investor concern that falling fertilizer sales and lower phosphate margins would persist. It was a sharply different outcome for the number 2 global fertilizer producer, compared with the world's number 1, **Nutrien** (NTR – $52.62), two weeks ago. NTR beat analyst estimates, earning an adjusted $1.58 per share, compared to the $1.56 consensus estimate.

Mosaic CFO Clint Freeland said, "As a result of weak spring demand and a high level of imports trapped in the Lower Mississippi River, market prices remained under pressure and the seasonal price improvement we typically see in the second quarter did not materialize. Additionally, while the Midwest warehouse premium in North America remained high, we didn't capture as much of that as anticipated as North American sales including MicroEssentials products were 350,000 to 400,000 tons lower than expected."

Mr. Freeland added, "We expect raw material costs to improve as we realize the benefits from recent market price declines. We now expect our mines in Brazil to be back to full operation this month, reducing the total cost of managing through the dam issue this year from our original estimate of $100 million to $80 million. With Ma'aden slowly ramping up production, the weaker phosphate pricing environment coupled with the project's interest costs are now expected to result in equity earnings to Mosaic of approximately negative $50 million for the year. And finally, expectations of cash taxes have declined from $75 million to $50 million. Our effective tax rate, excluding discrete items is expected to remain in the mid-to-high 20% range. The biggest impact of our effective rate is earnings mix. So that remains the item to watch going forward."

Fertilizer prices remain volatile, while the weather-related challenges for shipping and planting are difficult to predict or avoid. Still, higher crop yields become increasingly important as the global population expands, less farmable land is available and more folks in emerging economies move up the socioeconomic ladder, adding more protein to their diets (which requires more grains to feed the cattle, pigs, etc.). MOS trades for just 13.6 times NTM adjusted EPS projections and yields about 1%. Our Target Price has been pared to $45.

Movies, entertainment and theme park company **Walt Disney** (DIS – $138.52) posted earnings per share of $1.35, versus the $1.75 estimate, in Q3 2019. DIS had sales of $20.2 billion (vs. $21.4 billion est.). Shares slipped 4.9% following the announcement, as fewer guests resulted in weaker-than-expected Parks revenue and *Dark Phoenix*, a Fox film, contributed to the 21st Century Fox film studio's $170 million operating loss.

CEO Bob Iger said, "I'd like to begin by singling out our studio, which is the envy of the industry. The studio has generated $8 billion in global box office in 2019, a new industry record and we still have five months left in the calendar year with movies like *Maleficent: Mistress of Evil*, *Frozen 2* and *Star Wars: The Rise of Skywalker* still to come. So far this year, we've released five of the top six movies including four that have generated more than $1 billion in global box office. *Avengers: Endgame* is now the highest-grossing film in history with almost $2.8 billion worldwide. *Captain Marvel*, *Aladdin* and *The Lion King* have each surpassed $1 billion and with more than $960 million in box office to date, *Toy Story 4* will likely cross that threshold in the coming weeks. And all of these movies will be on Disney+ in the first year of launch."

Mr. Iger continued, "We analyze the 21st Century Fox opportunity entirely through the lens of our future business evaluating the long-term potential, especially related to accelerating our transformation into the DTC space on a global basis. As a result of the acquisition, we also now have full operational control of Hulu and a clear path to full ownership providing another powerful platform for us to produce and distribute great content. Disney+ will offer more than 600 hours of premium content from National Geographic at launch along with almost 300 hours of family entertainment from the Fox Studio's library. Disney+ will ultimately become the exclusive streaming service for our vast library of movies and series National Geographic content all upcoming *Disney*, *Pixar*, *Marvel* and *Star Wars* movies and a robust slate of high-quality original programming from the creative engines that drive our entire company. Regarding our suite of DTC services. I'm pleased to announce that in the United States, consumers will be

able to subscribe to a bundle of Disney+, ESPN+ and add supported Hulu for $12.99 a month. The bundle will be available on our November 12 launch date."

While concerns that there would be massive crowds at the new *Star Wars: Galaxy's Edge* area at Disney's Anaheim, California theme park weighed on overall attendance, we view the shortfall as temporary and liked that overall revenue continued to rise. We are glad to have pricing for the Disney+ streaming service and think that it'll create an interesting dynamic as companies launch their own services and pull content from other places. Still, we think consumers will be happier with a la carte versions of content delivery, even if they pay more in the aggregate. DIS shares yield 1.3%. Despite our long-term enthusiasm for the stock, our Target Price for DIS has been cut to $161.

Semiconductor equipment firm **Cohu** (COHU – $13.08) earned $0.02 per share in fiscal Q2 2019 (vs. $0.01 est.). COHU had sales of $150.0 million (vs. $153.0 million est.). Shares tumbled 9.3% following the announcement and 12.3% for the week, as U.S. export restrictions related to Huawei and softness in the mobility segment adversely impact Cohu in the quarter.

CEO Luis Mueller struck an upbeat tone, "We made good progress integrating recently acquired Xcerra, reaching an agreement with the local works council to downsize and consolidate the handler operation with the Cohu business in Germany, completing the transfer of our handler manufacturing to our Malaysia factory and on track to finalize the transition of contactors in devise kits to our Philippines operation this quarter. In all, delivering $17 million of annualized run rate cost synergies in the second quarter and on track to exit this year at approximately $40 million."

"In light of the soft market environment for semiconductor volume manufacturing where they can additional actions to reduce expenses and improve profitability, while maintaining critical investments that will drive growth in our test contactor and equipment businesses. With that, I remain optimistic about our future that were well positioned to capitalize on the 5G opportunity as it transitions from early device characterization and infrastructure build to high volume products," he continued.

CFO Jeff Jones offered the Q1 outlook, "For third quarter 2019 guidance, we're expecting sales to be approximately $143 million. Revenue distribution is expected to be 92% semiconductor test and inspection and 8% PCB test. Gross margins expected to be approximately 41%, operating expenses are expected to be approximately $51 million. Cost synergies of approximately $7 million or about $28 million on an annualized basis are included in the Q3 guidance. We're also taking measures, in addition to the acquisition cost synergies, to further reduce operating expenses with a forecasted Q3 benefit of approximately $1 million. We expect adjusted EBITDA in the third quarter to be approximately 8%. We're projecting the Q3 non-GAAP tax provision to be similar in total to the non — to the Q2 non-GAAP amount."

Despite the ongoing trade tensions, we believe that the Huawei-related shipment cuts could reverse in the future. Cuts to mobility-unit production due to softness in the business should also be expected to improve, although management said it's unsure if the weaker-than-expected second half of the year is related to Huawei or a "reflection of lower GDP growth globally."

COHU is set to report a small loss per share in 2019, but that's expected to improve to $1.05 in EPS for 2020, which pencils out to a 12.4 times forward PE ratio. Shares yield 1.8%. Our Target Price has been reduced to $21.

German letter and parcel carrier **Deutsche Post AG** (DPSGY – $32.20) posted earnings per share of $0.40, versus the $0.41 estimate, in fiscal Q2 2019. DPSGY had total revenue of $17.4 billion, versus the $17.2 billion estimate. Shares rose 3.9% following the announcement, as investors seemed pleased to learn that Deutsche Post would be hiking German postal and parcel rates in the back half of the year.

CEO Dr. Frank Appel commented, "I'm very happy to report that, despite all the global macro concerns, we have had a good second quarter, with all divisions contributing to the improved performance. And this is mainly due to our focus in all divisions, on yield management and cost control, which all come under the heading of self-help. Because we have final clarity on and have now implemented our mail price increase, we are able to tighten our 2019 guidance and lift the lower end of the P&P guidance from EUR1.0 billion to EUR1.1 billion. The lower end of the Group guidance is similarly raised, so that we now expect a range from EUR4.0 billion to EUR4.3 billion for the full year 2019. And we leave our 2020 guidance unchanged." In dollar terms, DPSGY expects adjusted EBIT between $4.5 billion and $4.8 billion in 2019, with free cash flow above $560 million. 2020 EBIT is expected to come in north of $5.6 billion, a figure unchanged from prior periods.

We believe that DPSGY (which sports a net yield of 3.9%) 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). DPSGY also has augmented its cargo plane fleet and has made progress increasing prices, a process made more challenging by government regulations. The stock now trades for an inexpensive 13.2 times estimated earnings and for just 54% of projected sales, while offering our broadly diversified portfolios unique European exposure. Our Target Price for DPSGY is $52.

Despite turning in a weaker Q2 than the investment community expected, shares of **Physicians Realty Trust** (DOC – $17.47) rose over 2% last week with the rest of the U.S. REIT index as domestic interest rates continued to retreat, even as revenue came in well below expectations ($94.9 million vs. $105.3 million). Normalized FFO (Funds From Operations) was $0.21 for the period, below the consensus expectation of $0.26. Results were negatively impacted by management's decision to recognize an aggregate $9.4 million of lost cash and straight-line rental revenue at the company's three LifeCare master-leased LTACH facilities and the Foundation El Paso Surgical Hospital.

As discussed in a press release dated 5.30.19, "LifeCare Holdings LLC, along with several related entities, filed for Chapter 11 bankruptcy in order to facilitate a sale process under bankruptcy protection. DOC did not receive contractually-owed rent payments for April and May 2019, representing an aggregate $0.8 million in lost cash rent. The payment of contractual rent on the related master-lease resumed in June 2019, and full rent has been paid in June, July, and August 2019. In accordance with accounting standard ASC 842, Leases, the DOC evaluated the collectability of future contractual rental payments related to the LifeCare master lease as of

June 30, 2019 and determined that the collection of substantially all future rent payments did not meet the probability threshold required under the recently adopted pronouncement. Accordingly, the related straight-line rent receivable balance of $3.5 million was written off as of June 30, 2019, resulting in an aggregate reduction to rental income of $4.3 million as a result of the LifeCare bankruptcy. Additionally, DOC determined that the collectability of substantially all past and future rent payments related to the Foundation El Paso Surgical Hospital did not meet the probability threshold required under ASC 842 as of June 30, 2019. As a result, the Company recognized a write-off of $2.1 million in past due rental payments and $3.0 million of previously recognized straight-line rent receivables, resulting in an aggregate reduction to rental income of $5.1 million."

CEO John T. Thomas commented, "The LifeCare reorganization process is coming to conclusion, with a new owner for our tenant which has agreed to assume our master lease 'as is.' We are negotiating the terms of a potential sale of the Foundation Surgical Hospital as well. All four facilities remain open and serving their communities…At Physicians Realty Trust, our mission has been to utilize our long-term relationships with industry-leading health systems to grow and manage one of the best portfolios of medical office properties in the United States. We continue to view medical office as the most resilient class of real estate in the market, and our portfolio of MOBs, representing 95% of portfolio square feet, delivered outstanding results during the quarter. Our medical office facilities delivered 3.5% Same Store NOI growth, and our latest investments continue our return to growth in high quality accretive assets. We are also excited about the expansion of our existing relationships with Ascension, Community Health Network, Texas Health Resources, and US Oncology through our recent investments."

While FFO missed expectations in the quarter, we note that the issues with specific operators were known and management has moved to address them with relative speed. Although DOC wrote off potential past unpaid and future revenue from these two clients, they could potentially recoup some or much of this. We continue to favor the expertise and experience of the management team, as well as the favorable demographic trends (e.g. 20% of the U.S. population is projected to be older than 64 before 2030). We also like the continued focus on leveraging its physician and hospital relationships nationwide to invest in off-market assets that maximize shareholder returns. The yield is 5.3% and our current Target Price is $22.

Tyson Foods (TSN – $88.37) saw its shares surge last week after the protein producer reported fiscal Q3 2019 financial results. TSN posted revenue of $10.88 billion, falling short of consensus expectations of $11.05 billion, but while analysts were looking for adjusted EPS of $1.44 for the period, Tyson delivered $1.47. While the quarter was generally in line, the catalyst for the stock move was management's upbeat guidance around its protein offerings moving forward given the worse-than-expected devastation to the hog population in China from the African Swine Fever virus.

"Overall, third quarter earnings were in line with our expectations," said CEO Noel White. "Volume growth in our core retail lines continues to outpace other large food companies and the total food and beverage category, driven primarily by our new product innovation. Our Prepared Foods and Beef segments produced strong results in the quarter, while results in the Chicken segment were mixed, and the Pork segment was negatively affected by increased hog costs."

Mr. White continued, “The African Swine Fever outbreak continues to take its toll on hog supplies in Asia; however, we have not yet experienced significant benefits to our Pork, Chicken or Beef segments. Given the magnitude of the losses in China’s hog and pork supplies, the impending impact on global protein supply and demand fundamentals is likely to be a multi-year event.”

He concluded, “We are maintaining our guidance of adjusted earnings of $5.75-6.10 per share for fiscal 2019. With a strong export environment expected to continue into next year, we’re optimistic about the earnings potential for each of our segments in fiscal 2020.”

With the havoc caused by the African Swine Fever, Chinese pork production is expected to materially decrease, which should result in increased imports. Whether or not there is a trade deal between the U.S. and China, we think TSN will benefit for years to come. However, a compromise between the U.S. and China should result in a quicker and more direct positive impact. Further, besides the potential of the high-margin Prepared Foods segment, we like that TSN is working on capturing some of the momentum in the fast-growing alternative proteins category. Given the relationships the company has and its preparation facilities and logistics, we would think with the right offerings Tyson could really pressure the likes of current Wall Street darling Beyond Meat.

We also believe that in the future, chicken can take share from other protein sources as it offers a relatively better cost and health profile to consumers. We also think that prepared foods and increasing protein consumption around the globe, especially in emerging economies, provide a solid footing for top-line growth. Despite shares being up more than 65% this year, TSN currently trades at 13.8 times NTM EPS and carries a dividend yield equal to that of the 10-year U.S. Treasury bond. Our Target Price for TSN has been boosted to $101.

Health care distributor **Cardinal Health** (CAH – $44.35) posted fiscal Q4 2019 financial results last week that were better than expected on both the top- and bottom-lines. Despite the solid quarter, shares fell almost 4%, as investors remain concerned about competitive pressures and the lawsuits filed against it and its fellow drug distributors, concerning the opioid epidemic. For Q4, CAH said its adjusted EPS was $1.11, almost 20% above forecasts. Revenue came in at $37.35 billion, versus expectations of $36.81 billion. Revenue growth of 6% was largely driven by stronger-than-expected specialty pharmaceuticals, and to a lesser degree improvement in mix skewing away from generics and towards more branded drugs. Earnings benefited from a better-than-expected tax rate and realization of cost savings initiatives, somewhat weakened by slower than expected turnaround of the medical segment.

"The fourth quarter capped off a year of progress for Cardinal Health," said CEO Mike Kaufmann. "During fiscal 2019, we delivered on our overall commitments and made significant strides on key initiatives that position us for growth in an evolving healthcare environment. While we still have work to do, we look forward to building on this foundation in the coming year and continuing to enhance the value we provide to our customers and their patients."

CAH management is now projecting adjusted EPS of $4.85 to $5.10 for full-year fiscal 2020. That guidance includes an anticipated incremental $130 million in cost savings associated with actions intended to optimize and simplify the company's operating model and cost structure. In connection with these cost savings initiatives, Cardinal expects to record restructuring charges in the range of $120 million to $145 million, the majority of which are expected to be expensed in fiscal year 2020.

We were pleased to see a relatively solid quarter, despite negative headlines around drug pricing and opioids. We believe that CAH will benefit in the long term from demographic trends in the U.S. as the population continues to age and requires greater health care usage. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 4.3%), buy back stock and invest in the business via research & development and mergers & acquisitions. CAH shares trade for less than 9 times NTM earnings expectations. Our Target Price has been trimmed to $73.

Specialty chemical company **Albemarle** (ALB – $70.25) saw its shares plunge on global economic worries early last week and then jump on the heels of the company's Q2 financial results. ALB reported adjusted EPS that was 8% higher than the $1.44 expected. Revenue for the period of $885 million was 1% less than consensus forecasts. Despite a backdrop of soft lithium prices, Albemarle has benefited from its structure of selling to customers on long-term contracts (insulating the company from much of the short-term price volatility…though it would obviously hurt if prices jumped).

“In the second quarter, Albemarle delivered adjusted diluted EPS of $1.55, an increase of 14% compared to the second quarter of 2018. All of our businesses met or exceeded our expectations this quarter with volume and pricing providing year-over-year growth in Lithium and Bromine,” said CEO Luke Kissam. “The recently announced amendments to our transaction with Mineral Resources Limited and our decision to delay indefinitely certain lithium expansion projects will allow us to reduce capital expenditures significantly while still meeting the commitments we have made to our customers.” The company also announced that it was raising its full-year adjusted EPS guidance from a range of $6.10 to $6.50, to a range of $6.25 to $6.65.

As a reminder, besides the potential for lithium in things like electric automobiles, Albemarle also generates healthy profits from bromine, which is primarily used in flame retardants. While demand for bromine has slipped in TVs and computers, it has risen for servers and automobile electronics. Further, ALB generates steady cash flows from its refining catalyst business. Despite the promising long-term growth potential and healthy current income statement, ALB shares are trading for 10.6 times NTM adjusted EPS guidance and yielding 2.1%. Our Target Price for ALB now resides at $126.

CVS Health (CVS – $59.29) reported another strong quarter since completing its acquisition of Aetna. For Q2, CVS turned in adjusted EPS of $1.89, versus consensus analyst estimates of $1.69. Revenue for the period of $63.43 billion was better than forecasts looking for $62.65 billion. The retail pharmacy segment continued to post better-than anticipated growth led by same-store script volume that expanded 7.2%. Bucking recent trends, front of store sales also accelerated during the quarter.

CEO Larry Merlo stated, “We posted strong second quarter results, with all of our businesses performing at or above expectations. These results demonstrate our ability to execute on our strategic priorities to accelerate enterprise growth as we seek to fundamentally transform the consumer health experience. Given our performance to date and our expectations for the remainder of the year, we are raising and narrowing our Adjusted EPS guidance range to $6.89 to $7.00.”

“We made meaningful advancements on each of the priorities we outlined at our Investor Day to differentiate, transform and modernize the delivery of care. While still early, we remain confident that we will be able to realize the potential of our innovative and powerful new business model to deliver enhanced value to our clients and the consumers we serve,” Mr. Merlo continued.

CVS – Making Good Progress

Evaluating Continued Performance Against Our Scorecard for Success

	Timing	Target	Update as of Q2 2019
Adjusted EPS Growth	2019	$6.75 - $6.90	✓ New guidance of **$6.89 to $7.00**, an increase of 11 cents at the midpoint
	2020	$7.00+ (Low single digits%)	
	2021	Mid single digits %	
	2022+	Low double digits %	
Integration Synergies	2019	$300M - $350M	✓ Fully integrated mail operations ahead of plan ✓ Expect **$400M** of synergies in 2019
	2020	~ $800M	
	2021+	~ $900M	
Enterprise Modernization	Run-rate 2022	~$1.5B - $2B	✓ On Track
Transformation	2022	~ $850M	✓ On Track
	Run-rate	~ $2.5B	
Leverage Ratio	2022	Low 3x's	✓ Repaid term loan in full ✓ Remain committed to repaying debt and reducing leverage
Cash Available for Enhancing Shareholder Value	Annually Long-Term	~$10B - $12B	
Inventory Reduction	2022	~ $1.5B	✓ On Track

22 CVSHealth.

Despite a seemingly bright future, CVS shares have had a tough last year, with the stock hardly a favorite of analysts, though that seems to be shifting a bit. True, the competitive landscape is tough and the regulatory environment presents questions, but we continue to believe that CVS is a free-cash-flow generating behemoth with strong potential to evolve its business to a broader health care delivery model. Shares remain highly discounted, trading at just 8.5 times NTM earnings and with a 3.4% yield. Our Target Price for CVS is presently $105.