Market Commentary Monday, September 9, 2019

September 8, 2019

EXECUTIVE SUMMARY

Newsletter Buys – 8 Stocks for 4 Portfolios
Week in Review – Lousy Start but Great Finish
ISM Manufacturing Index – PMI of 49.1…Major Equity Buy Signal
ISM Non-Manufacturing Index – NMI Suggests Solid GDP Growth
Employment Report – OK Numbers
Powell Speaks – Recession Not in the Current Projections
Interest Rates – 2 or 3 Cuts Prior to Year-End Still the Estimate
Reasons for Optimism – Sentiment, Earnings, Valuations and Yields
Yield Curve – No Longer Inverted; Not a Problem for Stocks if it Were
Stock Updates – TSN, TPR & TNP

Market Review

A little monthly housekeeping as we completed on Friday the newsletter portfolio additions highlighted in the September edition of *The Prudent Speculator*. For Buckingham Portfolio, we bought 325 **Greenbrier** (GBX – $24.74) at $24.663 and 6 **Alphabet** (GOOG – $1,204.93) at $1,207.085, while we purchased 705 **Timken** (TKR – $41.00) at $41.1394 for TPS Portfolio. In our two hypothetical portfolios, we picked up 505 **Int'l Paper** (IP – $39.43) at $39.56, 28 **Biogen** (BIIB – $224.57) at $224.46 and 737 **Halliburton** (HAL – $19.09) at $18.91 for PruFolio, and we added 463 **Kulicke & Soffa** (KLIC – $21.37) at $21.58 and 175 **Synchrony Fin'l** (SYF – $32.88) at $33.34 for Millennium Portfolio.

While we know very well that markets can quickly fluctuate in the other direction, it was a terrific week just completed for equities, especially those of the Value persuasion. Indeed, the Russell 3000 Value index enjoyed a total return of 1.98%, compared to 1.69% for the broad-based Russell 3000, with the fact that stocks managed to gain any ground probably coming as a big surprise, given that the first trading day of the new month saw the major market averages plunge on renewed concerns about the health of the U.S. economy, following a weaker-than-expected PMI reading on the ISM Manufacturing index.

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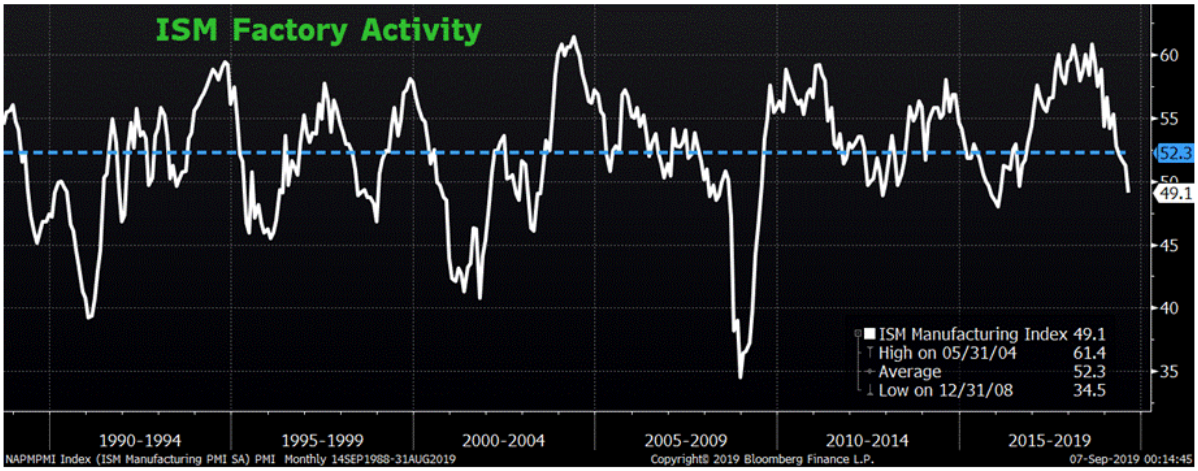
THE PRUDENT SPECULATOR
ISM Manufacturing = 1.8% GDP Growth

The latest read on the health of the manufacturing sector dipped to 49.1 in August. While the measure indicated contraction in the factory sector, manufacturing accounts for around 11% of the U.S. economy, and the Institute for Supply Management stated, "The past relationship between the PMI and the overall economy…corresponds to a 1.8% increase in real gross domestic product (GDP) on an annualized basis."



Of course, even as the sensationalistic financial press was quick to incorrectly suggest that the PMI tally for August of 49.1 was a sign that a domestic recession is now on the horizon, students of market history who are long-term holders of U.S. stocks should have been very happy to see that weak figure!

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Stock Market Buy Signal: ISM PMI

Returns Following ISM PMI Readings of <= 49.1

Statistic	Fama French Value	Fama French Growth	S&P 500	DJIA
One-Year				
Average	24.5%	21.2%	18.9%	17.6%
Median	25.5%	22.8%	20.6%	19.2%
Max	84.6%	83.8%	61.2%	58.3%
Min	-51.6%	-39.4%	-43.3%	-40.6%
# Positive	183	182	184	175
# Negative	32	33	31	40
Three-Year Annualized				
Average	20.4%	13.9%	15.6%	13.1%
Median	20.1%	14.2%	15.2%	13.5%
Max	38.9%	28.4%	32.7%	28.5%
Min	-6.6%	-7.4%	-8.3%	-3.9%
# Positive	214	201	202	207
# Negative	1	14	13	8
Five-Year Annualized				
Average	18.7%	13.1%	14.8%	13.1%
Median	18.2%	13.0%	14.9%	11.9%
Max	32.5%	25.7%	29.6%	31.7%
Min	3.2%	-7.1%	-1.7%	1.1%
# Positive	212	203	208	212
# Negative	0	9	4	0

From March 1948 - June 2019. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the Institute for Supply Management.

There were plenty of warnings issued as September 2019 began when an equity market selloff (so far short-lived) occurred following a sub-par Manufacturing Index (aka PMI) tally from the Institute for Supply Management. With a reading of 49.1, the PMI signified contraction in the factory sector, which would seemingly be a negative for the U.S. economy and, in turn, stocks…yet the historical evidence convincingly argues otherwise. In fact, looking at what actually has occurred with equities following the 215 times that the PMI has tallied 49.1 or lower shows that, on average, one-, three- and five-year returns (212 periods) have been fantastic, with Value leading the way.

To be sure, we concede that the malaise in the factory sector could spread to the rest of the economy, though that does not seem likely in the near term, given that the Institute for Supply Management's gauge of activity in the service sector (the Non-Manufacturing Index; i.e. the NMI) for August came in at a much-better-than-expected 56.4,…

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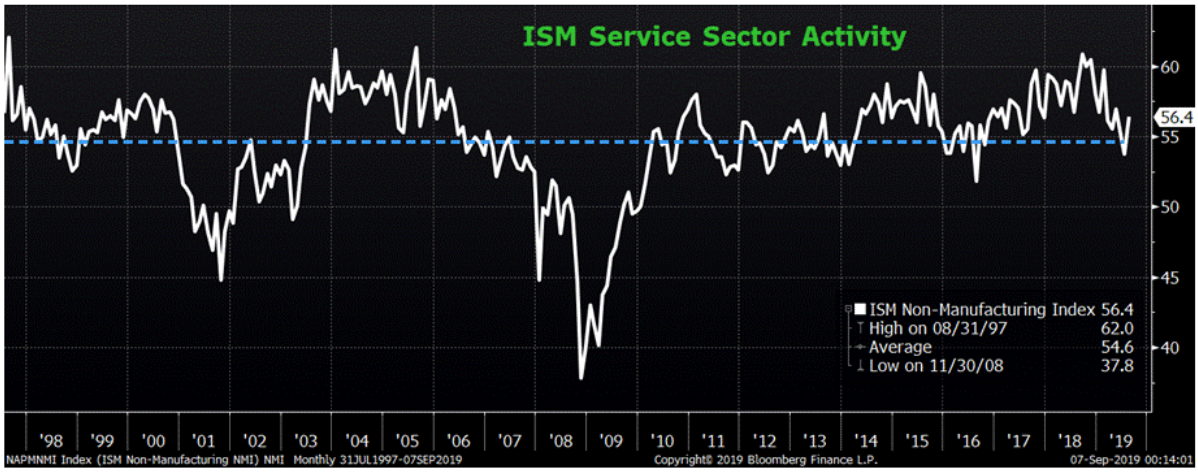
THE PRUDENT SPECULATOR
ISM Non-Manufacturing Falls

The latest read on the health of the service sector (NMI®) came in at a better-than-expected, though still above average, 56.4 for August with the Institute for Supply Management stating, "The past relationship between the NMI® and the overall economy…corresponds to a 2.7% increase in real gross domestic product (GDP) on an annualized basis."



…while the most important economic report of the month showed that the jobs market continues to hold up, despite the trade-related headwinds,…

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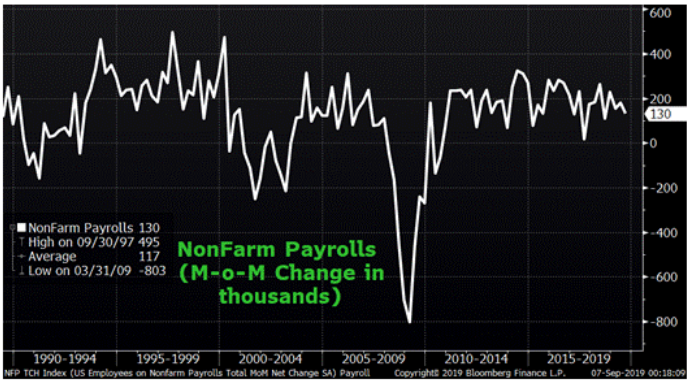
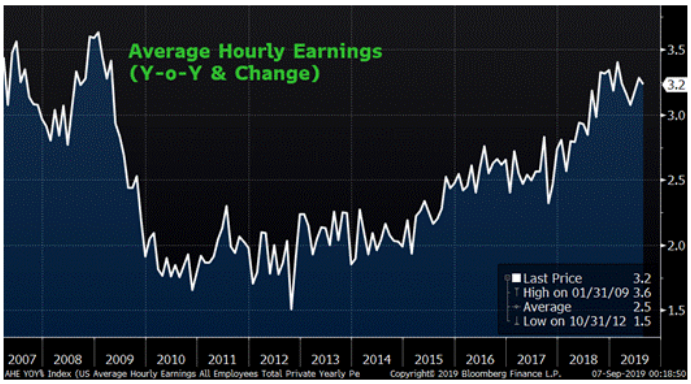
Better-than-Average Employment Report





Uncle Sam said that the number of new jobs created during August dropped to 130,000, well below the consensus forecast of 163,000 and the revised 159,000 tally for July, but modestly above the 117,000 average over the past 30 years. Also, the gain in average hourly earnings came in at 3.2% on a year-over-year basis, versus a revised 3.3% in July, continuing to suggest that inflation in the labor market is contained.

…with even the *New York Times* having to admit, "The August jobs data does not suggest that a recession is imminent."

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THE PRUDENT SPECULATOR
Near-Historic Lows in Jobless Numbers

The jobs number in August came in below forecasts, but the unemployment rate held steady at 3.7%, near a 50-year low, despite more folks looking for work. And, the latest figures (for the week ended 8.31.19) on initial claims for unemployment benefits saw 217,000 new filings, still near lows last seen back in December 1969 when the workforce was significantly smaller than it is today.

Obviously, anything can happen economically speaking, but it was interesting to hear Fed Chair Jerome H. Powell say on Friday, “We’re not forecasting or expecting a recession. The most likely outlook is still moderate growth, a strong labor market and inflation continuing to move back up.” Mr. Powell added, “The Fed has through the course of the year seen fit to lower the expected path of interest rates. That has supported the economy. That is one of the reasons why the outlook is still a favorable one.”

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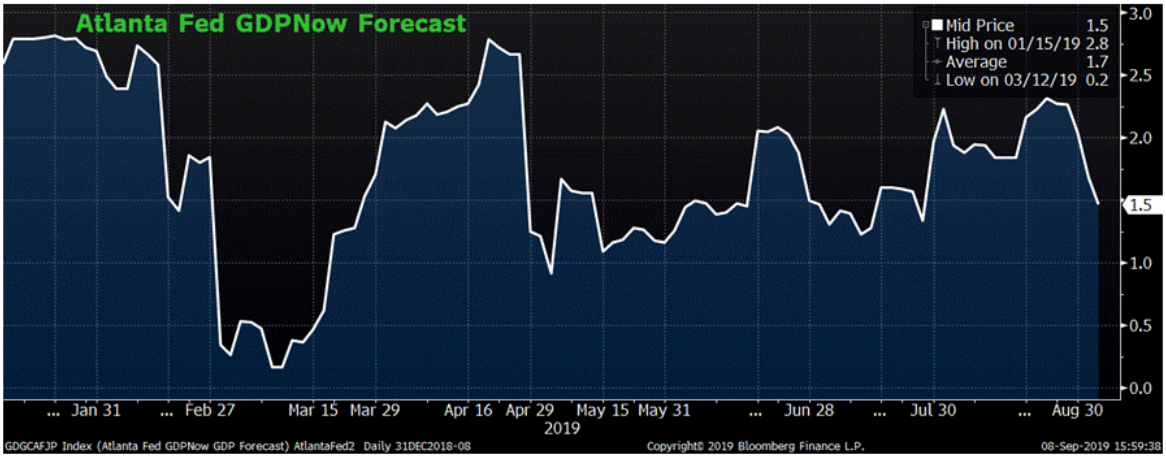
THE PRUDENT SPECULATOR
Recession Not Presently the Prediction

As the old saw goes, economists have predicted nine of the last five recessions, and the soothsaying so far in 2019 vividly illustrates why we like the Niels Bohr quotation, "Prediction is very difficult, especially if it is about the future." Indeed, six months ago, forecasts for U.S. GDP growth were near zero, only to quickly rebound to a 2.8% annualized growth estimate, but then sink anew to a 1.5% guess today.



Despite the Fed's relatively upbeat tone on the economy, it is pretty clear that the FOMC will reduce interest rates at the next get-together in nine days, with most now thinking we will have a 25-basis-point cut this month and another 25-basis-point paring in October.

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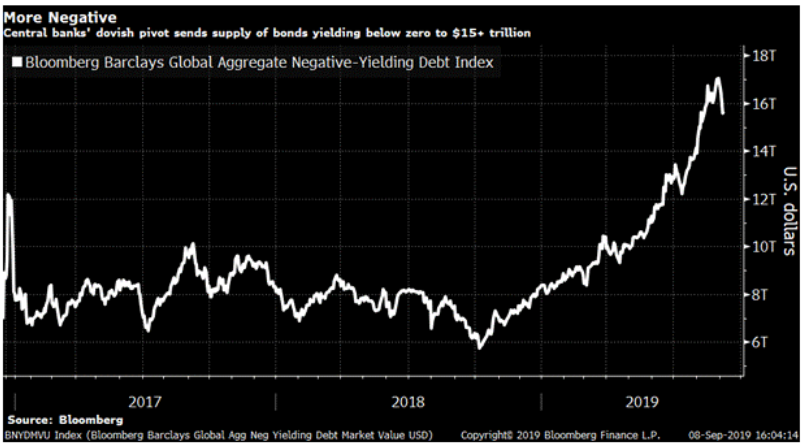
Low Interest Rates Headed Lower Still



99) Export — World Interest Rate Probability

United States — Instrument: Futures: Fed Funds - Effective — Fed Effective Rate 2.13

1) Overview — 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 09/08/2019 — Based on rate 2.00-2.25

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
09/18/2019	0.0%	100.0%	0.0%	0.0%	0.0%	4.1%	95.9%	1.87
10/30/2019	0.0%	100.0%	0.0%	0.0%	2.6%	62.9%	34.5%	1.71
12/11/2019	0.0%	100.0%	0.0%	1.6%	40.7%	44.9%	12.7%	1.55
01/29/2020	0.0%	100.0%	1.0%	24.6%	43.2%	26.0%	5.2%	1.41
03/18/2020	0.0%	100.0%	10.2%	31.9%	36.5%	17.9%	3.2%	1.31
04/29/2020	0.0%	100.0%	16.7%	33.3%	30.9%	13.5%	2.2%	1.24
06/10/2020	0.0%	100.0%	20.6%	32.7%	26.8%	10.8%	1.7%	1.18
07/29/2020	0.0%	100.0%	23.4%	31.3%	23.1%	8.7%	1.3%	1.12
09/16/2020	0.0%	100.0%	24.7%	30.0%	20.7%	7.5%	1.1%	1.08

With more than $15 trillion of negative-yielding debt globally, the current 2.0% to 2.25% target for the Federal Funds rate would seem to have room to fall and the Fed Funds Futures now suggest that there is a 42.3% change of three or more additional interest rate cuts from Jerome Powell & Co. by the end of 2019.

Obviously, the twists and turns of the trade skirmish with China will dominate the short-term movements and anything can happen in the equity markets, so we are always braced for additional downside, but we think stocks are extraordinarily attractive today as investor sentiment is quite bearish,…

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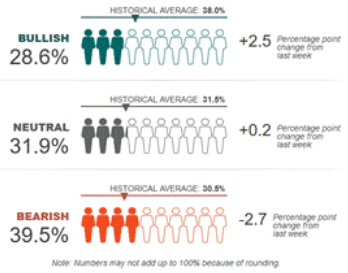
Still Plenty of Pessimism

AAII Investor Sentiment Survey

Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.

Survey Results for Week Ending 9/4/2019

Data represents what direction members feel the stock market will be in next 6 months.



Note: Numbers may not add up to 100% because of rounding.

The AAII Investor Sentiment Survey has become a widely followed measure of the mood of individual investors. The weekly survey results are published in financial publications including Barron's and Bloomberg and are widely followed by market strategists, investment newsletter writers and other financial professionals.

September 5, 2019 - Optimism among individual investors about the short-term direction of the stock market rebounded but remains below 30% for the fifth consecutive week. The latest AAII Sentiment Survey also shows pessimism remaining at an unusually high level.

Bullish sentiment, expectations that stock prices will rise over the next six months, rebounded by 2.5 percentage points to 28.6%. Optimism was last higher on July 31, 2019 (38.4%). Optimism is below its historical average of 38.0% for the 28th time this year and the 16th time in 17 weeks.

Bearish sentiment, pulled back by 2.7 percentage points to 39.5%. Pessimism remains above its historical average of 30.5% for the 14th time in 17 weeks

With stock indexes trading near record highs, it is fascinating that optimism remains well below normal in the latest AAII Sentiment Survey, while flows into domestic stocks in late-August were very negative via data compiled on mutual and exchange traded funds by ICI.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	8/28/2019	8/21/2019	8/14/2019	8/7/2019	7/31/2019
Total Equity	-9,505	-14,004	2,437	-22,583	3,002
Domestic	-5,322	-9,382	3,109	-19,568	4,666
World	-4,182	-4,622	-672	-3,015	-1,664
Hybrid	-1,410	-744	-2,739	-1,562	-774
Total Bond	7,959	3,951	10,038	-2,611	8,250
Taxable	5,998	1,876	8,150	-5,484	6,589
Municipal	1,960	2,074	1,888	2,872	1,660
Commodity	1,745	618	307	1,179	248
Total	-1,211	-10,179	10,043	-25,579	10,726

Source: Investment Company Institute

…corporate earnings are still likely to grow,…

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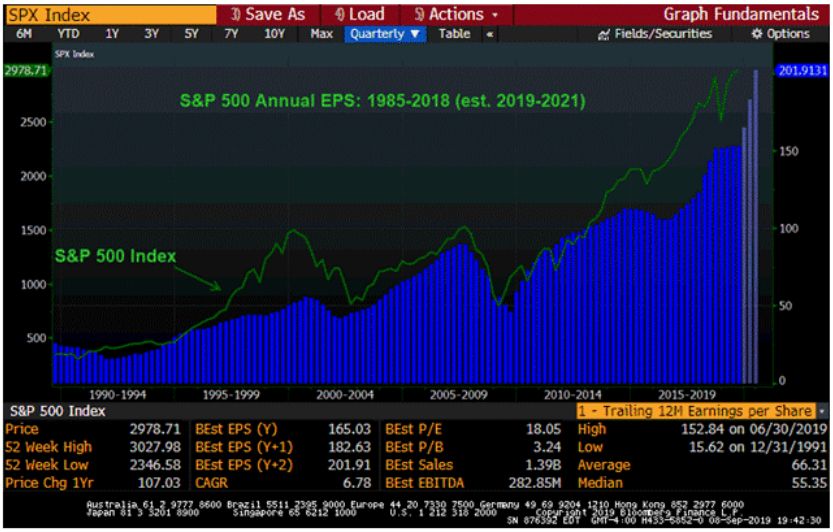
THE PRUDENT SPECULATOR
Growing Black Ink for Corporate America

Certainly, we understand that analysts are often overly optimistic in their projections, but sizable year-over-year earnings expansion is expected in '19, with further growth likely in '20 and '21.



S&P 500 Earnings Per Share

Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$48.29	$181.42
9/30/2020	$46.53	$175.63
6/30/2020	$44.85	$170.14
3/31/2020	$41.75	$165.71
12/31/2019	$42.50	$161.95
9/30/2019	$41.04	$154.48
6/30/2019	$40.42	$154.82
ACTUAL		
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26
9/30/2016	$28.69	$101.42
6/30/2016	$25.70	$98.17
3/31/2016	$23.97	$98.61
12/31/2015	$23.06	$100.45

Source: Standard & Poor's. As of 9.5.19

…valuations are reasonable,…

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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 5.12%.

…and a 1.56% 10-year Treasury yield is no match for the current 3.1% dividend yield on TPS Portfolio.

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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	12.9	11.8	1.1	1.9	3.1
Select Value	13.6	12.2	1.1	1.9	2.7
Select Dividend	13.4	12.2	0.9	1.9	3.4
Select Focused Dividend	12.4	11.6	0.9	2.1	3.5
Select Focused Value	13.7	12.6	1.3	2.3	2.8
Select SMID Dividend	12.4	11.4	0.6	1.4	3.2
Russell 3000	20.7	18.8	2.0	3.2	1.9
Russell 3000 Growth	27.8	24.4	3.1	8.0	1.2
Russell 3000 Value	16.3	15.2	1.4	1.9	2.6
Russell 1000	20.2	18.5	2.1	3.3	1.9
Russell 1000 Growth	26.8	23.6	3.4	8.4	1.2
Russell 1000 Value	15.9	15.0	1.5	2.0	2.6
S&P 500 Index	19.5	18.1	2.2	3.4	1.9
S&P 500 Growth Index	25.4	22.5	3.8	5.7	1.4
S&P 500 Value Index	15.3	14.7	1.5	2.3	2.5
S&P 500 Pure Value Index	11.4	10.7	0.6	1.2	2.9

As of 09.08.19. 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.

We also should point out that the yield on the 2-year Treasury is now 1.54%, two basis points below that of the 10-year, meaning that the inverted yield-curve bogeyman is no longer present, though history shows that such an event is an equity market buy signal!

Value Buy Signal: Yield Curve Inversions

Inverted Month-End 2/10 Yield Curve and Subsequent Equity Returns

Statistic	Fama French Value	Fama French Growth	Russell 3000 Value	Russell 3000 Growth	S&P 500	DJIA
One-Year						
Average	16.2%	10.3%	10.6%	7.4%	9.2%	10.2%
Median	15.9%	10.1%	9.9%	10.9%	12.0%	9.7%
Max	72.7%	83.8%	61.6%	71.7%	61.2%	58.3%
Min	-24.5%	-35.9%	-16.1%	-45.4%	-26.6%	-15.9%
# Positive	59	42	49	38	44	49
# Negative	10	27	15	26	25	20
Three-Year Annualized						
Average	13.4%	6.2%	7.6%	3.9%	7.6%	8.2%
Median	15.2%	8.8%	10.3%	7.8%	10.3%	8.9%
Max	35.6%	26.7%	29.8%	22.0%	26.3%	24.0%
Min	-21.1%	-22.0%	-17.4%	-25.5%	-16.1%	-11.4%
# Positive	55	47	46	42	47	47
# Negative	14	22	18	22	22	22
Five-Year Annualized						
Average	17.5%	9.5%	12.3%	8.1%	12.2%	12.9%
Median	23.0%	11.9%	15.2%	11.6%	14.0%	13.2%
Max	31.0%	21.9%	28.2%	24.7%	27.9%	30.0%
Min	-4.8%	-5.5%	-3.5%	-10.9%	-5.2%	1.2%
# Positive	61	59	56	53	55	69
# Negative	8	10	8	11	14	0

Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the St. Louis Federal Reserve. Five periods (generally very good performing) in 1978 are not included in the Russell 3000 Value and Growth Total Return Series as data did not exist.

While the financial press continues to shout about the supposed dangers of a yield-curve inversion, even as central bank buying of government debt has no doubt pushed longer-term interest rates lower, we think market history can help mitigate investor fears. After all, looking at what actually has occurred with stocks following the 69 (or 64 for the Russell indexes) month-ends when the yield on the 2-Year U.S. Treasury has topped that of the 10-Year shows that, on average, one-, three- and five-year Value returns have blown away Growth, and the S&P 500 and Dow have also performed well.

Stock Updates

Chris Quigley and Jason Clark offer updates on a few of our 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," a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/.

Tyson Foods (TSN – $86.04) tumbled more than 8% last week after the protein producer announced lower earnings targets for Q4 due to near-term challenges. The challenges, according to Tyson, include "margin compression related to a reversal of a gain on mark to market grain derivatives recognized in our third quarter, commodity market volatility, implementation of enhanced food safety initiatives, a beef processing plant fire, and slower than expected operational improvements in the Chicken segment." Tyson now expects to earn between $5.30 and $5.70 per share in 2019, versus the prior guidance range between $5.75 and $6.10.

"The discrete challenges we've encountered this quarter now lead us to believe we will fall short of our previously stated guidance," said TSN CEO Noel White, "but our outlook for fiscal 2020 remains positive as we believe some of the challenges we're experiencing are not expected to repeat, and we're expecting more favorable market conditions as well."

Mr. White continued, “Our portfolio is structurally sound and generating strong sales volumes. Our volumes are strong in the back-to-school season while our case-ready beef and pork business continues to grow. Our international business is exceeding expectations as our legacy business outperforms the prior year and we continue to integrate Keystone and the newly acquired Thai and European assets.”

“Our diversified portfolio is uniquely suited to respond to dynamic and challenging market conditions, and we continue to expect better performance in fiscal 2020. We’re very optimistic about our long-term potential as we focus on prepared foods growth, international growth and serving our customers,” he concluded.

While it didn’t help the stock much, TSN also announced towards the end of last week that it has invested in New Wave Foods, a startup making a plant-based shrimp substitute, the market for which is expected to be large, as shrimp is one of the most popular seafoods. “We’re excited about this investment in the fast-growing segment of the plant-based protein market,” said Amy Tu, president of Tyson Ventures. “This continues our focus of identifying and investing in companies with disruptive products and breakthrough technologies related to our core business so we can continue to serve a growing global population.”

“We worked with the Culinary Institute of America to set the gold standard for this product and then created a plant-based shrimp that has had rave reviews from the thousands of people who have tasted it,” said Mary McGovern, CEO of New Wave Foods. “Our plant-based shrimp cooks and tastes just like the real thing, and it matches the texture, taste, performance and versatility of shrimp fresh from the ocean. The proof is in the overwhelming, positive response we have had to the product.”

Despite the Q4 stumble, we still like Tyson and the exposure it brings to our broadly diversified portfolios. Meat substitutes are all the rage at the moment, for good reason, and we are pleased that TSN is actively working to grow that business. 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 think that prepared foods and increasing protein consumption around the globe, especially in emerging economies, provide a solid footing for top-line growth. TSN currently trades at 13.9 times NTM EPS and offers a 1.7% yield. Our Target Price for TSN is now $100.

Badly battered shares of **Tapestry** (TPR – $23.69) jumped almost 17% last week after the designer and marketer of clothes and accessories announced that it was ousting CEO Victor Luiz after five years at the helm. Mr. Luis will be immediately replaced by Chairman Jide Zeitlen. During the Luiz era, the company purchased Kate Spade in what was billed as an attempt to reach younger consumers and added the Stuart Weitzman footwear brand. As we have written about on numerous occasions, we were constructive on the multi-brand strategy, but our frustration has been with the lack of firm-wide execution. According to the Tapestry board, the move was driven by a gap between strategy and delivery, so we suppose the management shake-up should not come as a big surprise.

Mr. Zeitlin explained, “Over the past five years, as CEO, Victor was instrumental in the successful transformation of Coach and the establishment of Tapestry as New York’s first house of modern luxury lifestyle brands.”

“The Board remains committed to Tapestry’s multi-brand model, while recognizing the need to sharpen our focus on execution. Given the continued strength and momentum at Coach – the largest brand at Tapestry – our top priority remains driving significantly improved performance at our acquired brands,” said Susan Kropf (who was named the new lead independent director of the Tapestry board of directors).

Ms. Kropf continued, “Having worked alongside Jide for more than 10 years, I know how eminently capable he is of leading Tapestry’s world-class teams at this time. He is highly respected within the organization, and I am confident that Jide will help our teams unlock the potential of our entire portfolio.”

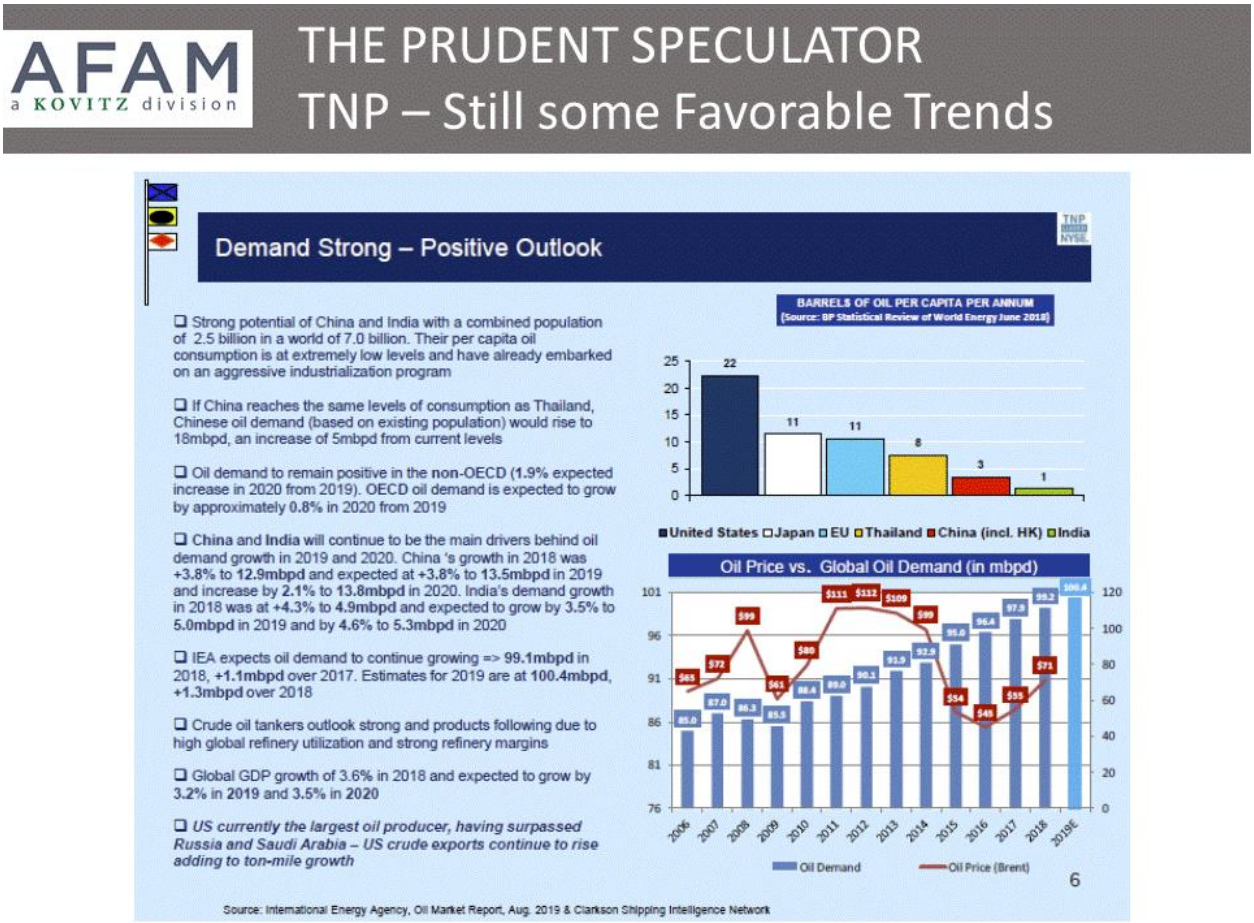
Mr. Zeitlin concluded, “I have profound belief in Tapestry’s people and culture, as well as our ability to enhance returns for all stakeholders. Coach, Kate Spade and Stuart Weitzman have powerful and differentiated positioning, strong consumer connections and attractive growth potential. Together with a talented management team that combines long-tenured executives with new leaders who bring fresh perspectives, we will act with urgency to drive sustainable organic growth.”

Given the execution difficulties across the brand spectrum, we acknowledge that the proof will be in the pudding with the new leadership, but we were pleased, given the departure of Mr. Luiz, that the company said that it was maintaining its recently lowered fiscal 2020 financial outlook and that it continues to expect to return about $700 million to shareholders through its dividend and repurchase programs.

While we think Tapestry has done a good job of fixing Coach’s past difficulties, including materially reducing exposure to struggling department stores, it seems to have underestimated the problems with Kate Spade. As for Stuart Weitzman, Tapestry is making progress with its production struggles and we believe that its new sneakers fit the athleisure trend. As Tapestry continues to evolve, we can’t help but be excited by the fact that the stock trades for just 9.3 NTM earnings expectations, and current respective EPS forecasts for fiscal ‘21, ’22 and ’23 stand at $2.75, $2.90 and $3.33. Our Target Price is now $41, but we think that there is significant upside potential from current levels.

Shares of **Tsakos Energy Navigation** (TNP – $2.97) fell by 1% last week, after the marine shipper announced somewhat disappointing Q2 financial results. Adjusted EPS came in at a loss of $0.14, versus the $0.11 loss that was expected. Revenue also fell short of consensus analyst estimates ($108.8 million versus $114.1 million). On the positive side, TNP’s daily time charter equivalent rate per vessel for the first half of 2019 was $20,418, a 17% increase over the equivalent 2018 period and substantially higher than the average spot market rates for the period. During Q2, TNP demonstrated strong fleet utilization of 96.6%, generating gross revenue 16% higher than in the second quarter of 2018. Of the total revenue, 63% was from time-charter hire.

The earnings release explained, “As we exit the seasonally soft part of the cycle, a confluence of positive events including increased U.S. crude oil exports that lead to increases in ton-mile demand and ultimately reductions in vessel supply, the impact of the IMO 2020 regulations which should facilitate an accelerated departure of older tonnage from the competitive fleet and the historically low orderbook as well as the impact of refineries returning from maintenance, create the springboard for a healthy market going forward. Management is positioning the fleet to take advantage of this upturn by having adequate appropriate vessels in the spot market, which together with those on profit sharing arrangements could provide additional revenue upside for TNP, whose primary model of having enough vessels on secured revenue contracts to cover the entire fleet’s expenses remains intact.”



Chief Operating Officer George Saroglou concluded, “With gross fleet revenues up $41 million higher than the end of the second quarter last year, with an equivalent number of vessels, we feel confident that the market is on its way to a healthy recovery and comfortable that our fleet has the capacity to capture market upturns as they develop. TEN is well prepared to take advantage of the positive fundamentals as they unfold and expects such momentum to be translated in increased profits and eventually in a higher share price.”

While it feels like TNP shares have been awful performers this year, they actually have a YTD total return of +13.5%, though our overall experience has left a lot to be desired. Still, we know

that the stock has traded at several times its current level during previous cyclical highs in the tanker biz. We continue to like the exposure and think that TNP is set up with its contract structure to not only survive, but thrive, as business conditions improve, while we have at least had some rewards for our patience via the generous dividend payout.

With a relatively young fleet and desire to make it younger, a more subdued industry-wide order book going forward and relatively consistent growth in global oil demand likely for the foreseeable future, we continue to think this micro-cap name fits in well with the much more well-known integrated oil and oil-service companies that account for the lion's share of our Energy Sector exposure. Sporting a current dividend yield of 6.8%, our Target Price for TNP floats in today at slightly less than $5.