Market Commentary Monday, September 16, 2019

September 16, 2019

EXECUTIVE SUMMARY

Rotation to Value – September Rally Continues
Econ Update – Generally Positive Stats
Sentiment – Still Not Much Love for Stocks
Bonds – Tons of Money Has Poured Into Fixed Income
Risk – Government Bond Prices Can be Volatile Too
Value Resurgence – *Sudden Transformation* Has CNBC Worried
Value vs. Growth – Inexpensive Stocks Incredibly Attractive
Value Shopping List – 25 Undervalued Bargains Yet to Have a Day in the 2019 Sun
Stock Updates – AAPL, DIS, ORCL, KR, MOS & MDC

Market Review

Certainly, it didn't hurt the U.S. equity markets last week that tensions cooled a bit in the trade skirmish, with President Trump delaying the next round of tariffs on Chinese goods and the Middle Kingdom reciprocating by exempting some American soybeans, pork and other agricultural products. Larry Kudlow, director of the National Economic Council, said on Friday, "The really good part about this is there is some relaxation in the air with China exempting some tariffs. We've returned the favor and negotiations are moving along nicely…And as the president said yesterday, we're always available for a good deal."

To be sure, trade remains a major wildcard, but stocks on average enjoyed another terrific week of trading, with the Dow Jones Industrial Average extending its string of gains to eight days. More importantly, for those of us who think that valuations matter when it comes to equity investing, Value stocks enjoyed one of their finest five days on a relative basis…and the absolute returns weren't bad either. The Russell 3000 Value index advanced 2.72% on the week, versus a drop of 0.20% for the Russell 3000 Growth index and a 1.22% increase for the Russell 3000 itself.

No doubt, decent economic data, suggesting that a recession may not be as imminent as many were recently arguing, helped matters,…

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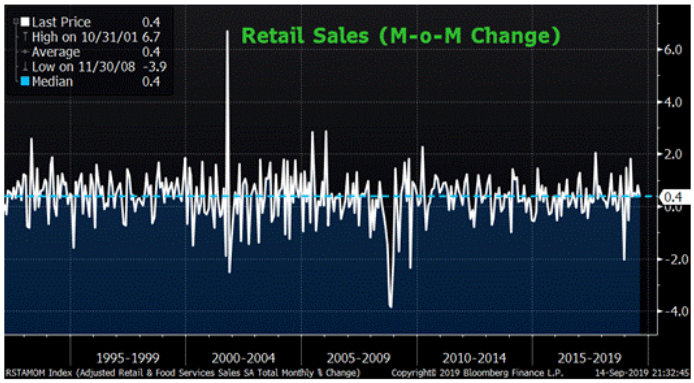
THE PRUDENT SPECULATOR
Healthy Retail Sales & Labor Market



Uncle Sam said that retail sales for August came in much stronger-than-projected with a sizable gain of 0.4%. Sales of automobiles climbed a surprisingly robust 1.8%, while building materials saw sales jump a hefty 1.4%. A healthy jobs market is certainly buoying the consumer, with initial filings for unemployment benefits dipping in the latest week to 204,000, the lowest tally in nearly 50 years.

…even as small businesses and consumers do not have the same level of elevated optimism today as they had just a few months ago.

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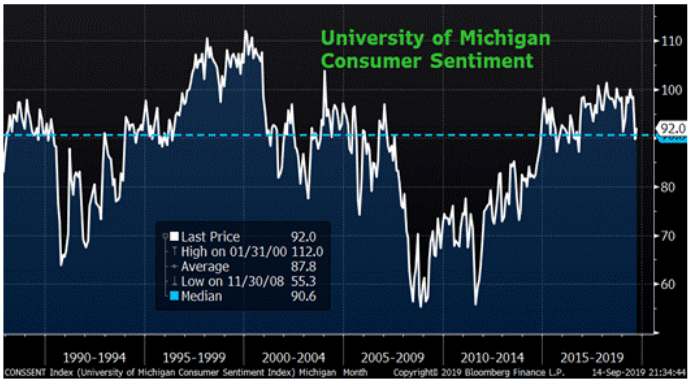
THE PRUDENT SPECULATOR
OK Confidence Statistics



Though the figure remained well above average, the NFIB Small Business Optimism Index for August trailed estimates by falling to 103.1, with fewer respondents expecting business conditions to improve and fewer seeing better sales volumes ahead. The optimism of the consumer beat forecasts, however, as the preliminary Univ. of Michigan gauge of sentiment for September jumped to 92.0, above the historical norm.

And speaking of optimism, it still seems to be lacking on Wall Street and we fear that many investors missed the sensational rebound over the last three weeks, a rally that has seen the Russell 3000 Value index jump 7.60% and the S&P 500 Value index leap 7.74%. True the level of pessimism in the latest Sentiment Survey from the American Association of Individual Investors retreated to 31.3%, but this figure is still above average, and it was 44.8% a month ago and 42.2% at the end of August, suggesting that the folks on Main Street were quite Bearish when the recent run-up began.

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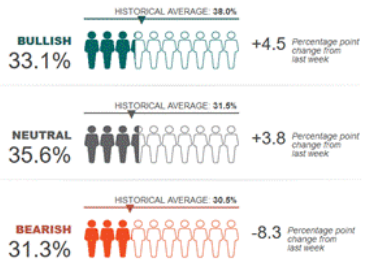
THE PRUDENT SPECULATOR
Still Not a Lot of Optimism for Stocks

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 9/11/2019

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 12, 2019 - Optimism among individual investors about the short-term outlook for stocks continues to rebound as pessimism plunged. The latest AAII Sentiment Survey also shows higher neutral sentiment.

Bullish sentiment, expectations that stock prices will rise over the next six months, rose 4.5 percentage points to 33.1%. Even with the increase, optimism remains below its historical average of 38.0% for the 29th time this year and the 17th time in 18 weeks.

Bearish sentiment, expectations that stock prices will fall over the next six months, plunged 8.3 percentage points to 31.3%. The historical average is 30.5%.

With stock indexes trading near record highs, it is fascinating that optimism remains below and pessimism above normal in the latest AAII Sentiment Survey, while flows into domestic stocks have been 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	9/4/2019	8/28/2019	8/21/2019	8/14/2019	8/7/2019
Total Equity	-4,104	-9,506	-14,007	2,437	-22,583
Domestic	-4,387	-5,324	-9,384	3,109	-19,568
World	283	-4,182	-4,623	-672	-3,015
Hybrid	-1,138	-1,412	-744	-2,739	-1,562
Total Bond	6,927	7,952	3,949	10,038	-2,611
Taxable	5,709	5,993	1,874	8,150	-5,484
Municipal	1,218	1,959	2,074	1,888	2,872
Commodity	914	1,745	618	307	1,179
Total	2,598	-1,220	-10,184	10,043	-25,579

Source: Investment Company Institute

And, not only did many folks likely miss out on handsome stock market gains, given the continued and accelerated-of-late exodus out of equities and into bonds,…

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THE PRUDENT SPECULATOR
Bonds Remain Stunningly Popular

With the S&P 500 at an all-time high, many think folks are infatuated with U.S. equities, but data from the ICI show that a massive net sum of money has flowed out of domestic stock mutual funds/ETFs over the last 4-plus years. Bonds have been the major beneficiary of the exodus.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Apr-16	-12,610	22,114	Jul-17	-12,386	29,164	Oct-18	-12,009	-32,405
Feb-15	5,547	30,321	May-16	-14,252	16,925	Aug-17	-18,937	26,418	Nov-18	2,780	-11,250
Mar-15	-1,494	4,905	Jun-16	-15,530	16,623	Sep-17	-9,636	36,476	Dec-18	-28,957	-49,413
Apr-15	-34,681	11,027	Jul-16	292	33,575	Oct-17	3,211	38,818	Jan-19	-21,198	29,298
May-15	-17,287	5,010	Aug-16	-9,956	30,859	Nov-17	-4,429	21,628	Feb-19	3,604	45,094
Jun-15	-7,023	6,324	Sep-16	-5,713	24,669	Dec-17	-9,066	19,158	Mar-19	-3,658	38,363
Jul-15	-14,864	-1,255	Oct-16	-23,109	13,855	Jan-18	10,777	56,779	Apr-19	-5,326	40,472
Aug-15	-18,569	-18,122	Nov-16	22,993	-13,289	Feb-18	-41,447	1,772	May-19	-24,681	21,015
Sep-15	-4,725	-10,849	Dec-16	18,859	-4,142	Mar-18	-22,173	15,920	Jun-19	-12,018	39,661
Oct-15	-807	15,397	Jan-17	4,966	31,061	Apr-18	-7,422	22,435	Jul-19	-7,789	44,633
Nov-15	654	-5,573	Feb-17	17,530	34,026	May-18	9,970	13,108	Aug-19	-35,554	26,255
Dec-15	476	-25,043	Mar-17	8,906	36,632	Jun-18	-13,123	14,470	**Totals:**	**-434,950**	**957,658**
Jan-16	-27,222	7,686	Apr-17	-8,370	22,116	Jul-18	984	25,956			
Feb-16	-9,108	11,915	May-17	-10,816	33,128	Aug-18	-6,658	19,585			
Mar-16	7,711	29,296	Jun-17	-8,022	29,420	Sep-18	880	18,102			

…the giant spike in interest rates over the last five trading days left U.S. Treasury buyers licking some significant short-term wounds,…

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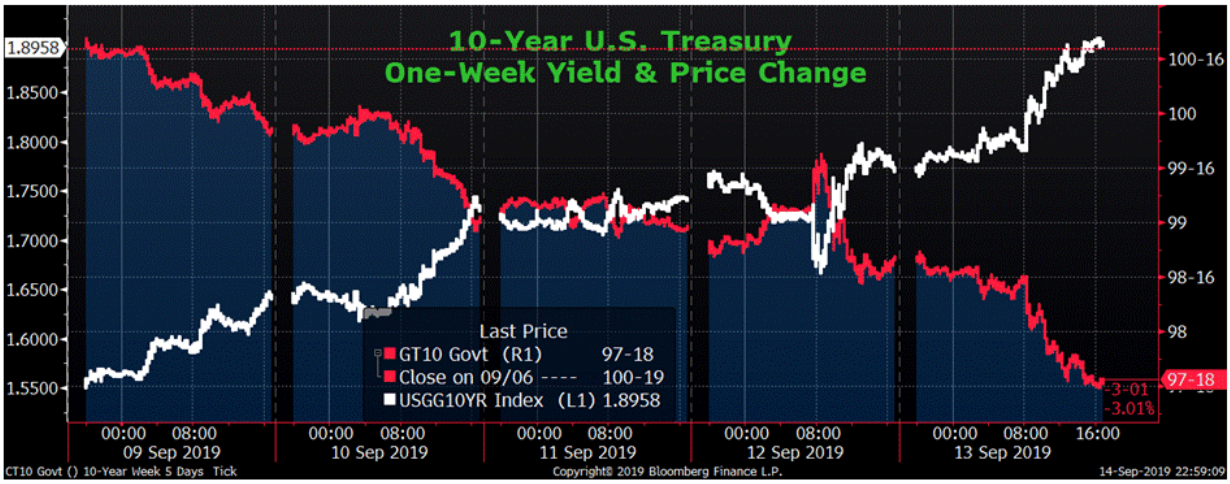
THE PRUDENT SPECULATOR
Stocks Not the Only Volatile Asset Class

Though U.S. Treasuries are far less volatile than equities, action in the government bond market last week illustrated that supposedly safe fixed income investments can suffer sizable short-term setbacks. Indeed, the yield on the benchmark 10-Year Treasury jumped from 1.56% to 1.90%, with the resulting price drop equaling a whopping 3.01%.



…while we are not sure how to accurately calculate last week's losses for those who somehow think purchasing negative-yielding government debt is a good idea,…

Reward-Free Risk – German 10-Year

It must be new math European fixed income investors use when they rationalize buying negative yielding debt. After all, while the Bund has proven lucrative in recent years, the price of the German government bond (which if held to maturity would provide a loss of 0.64% per year for those who bought a week ago), declined by 1.89% over the last five days. Maybe they think they doubled their expected annual return in just one week as the two negatives cancel (-1.89% divided by -0.64%)!

…even as we concede that greater fools have bid up the price of German Bunds (sending the yield further into negative territory) over the past three years since that benchmark instrument first saw its yield dip below zero.

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THE PRUDENT SPECULATOR
Falling/Rising Bond Yields & Stocks

We remain perplexed why so many think that the "smart money" is in the bond market, especially when 10-Year Bund investors in Germany are actually willing to accept a negative return on their investment. Yes, some view super-low European bond yields as a global recession harbinger, but the S&P 500 is up some 50%, not counting dividends, since the initial time the Bund yield went below zero in June 2016.

Given what the S&P 500 has done over the past three years (i.e. posted big gains), we were perplexed to hear the following explanation this weekend for why anyone would buy a government bond with a negative yield: "Because it's the ultimate safe haven, where you're willing to store your money if you're skittish about riskier investments such as stocks. You're willing to pay that to minimize your losses."

Obviously, stocks are far more volatile than bonds, but opting for a guaranteed loss if an investment is held to maturity makes no sense in our view, given the rewards available to long-term-oriented investors who can stomach the inevitable ups and downs of the equity markets.

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THE PRUDENT SPECULATOR
Volatility is Normal: Value/Divs Win Race

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	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	300	0.3	8/14/2019	9/12/2019

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	8/14/2019

From 02.20.28 through 9.12.19. 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 07.31.19. 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

The table above details the historical massive performance advantage of Value stocks over Growth stocks dating back to 1927, with this evidence causing us to chuckle when *CNBC.com* seemingly became very worried about the resurgence of Value this past week. The website on Tuesday reported, "There's a sudden transformation taking place in the stock market and it's unnerving some investors." At the risk of horrifying our readers, the Key Points cited in the piece were as follows:

1) Value stocks — those with low multiples and stable fundamentals — significantly outperformed their growth counterparts on Monday.
2) Data compiled by Bespoke Investment Group showed this was momentum's worst daily performance relative to value since its inception in early 2013.
3) This shift is unnerving to investors because growth stocks, those defined by their large growth expectations relative to the broader market, have outperformed value stocks in recent years. Also the move has been so rapid.
4) A rotation away from these stocks could result in a downturn for the broader market, some fear.

Not surprisingly, we are not at all worried that investors are finally concerning themselves with financial fundamentals, even as we know that there have been plenty of periods where Value has had a few moments in the sun over the past dozen years,…

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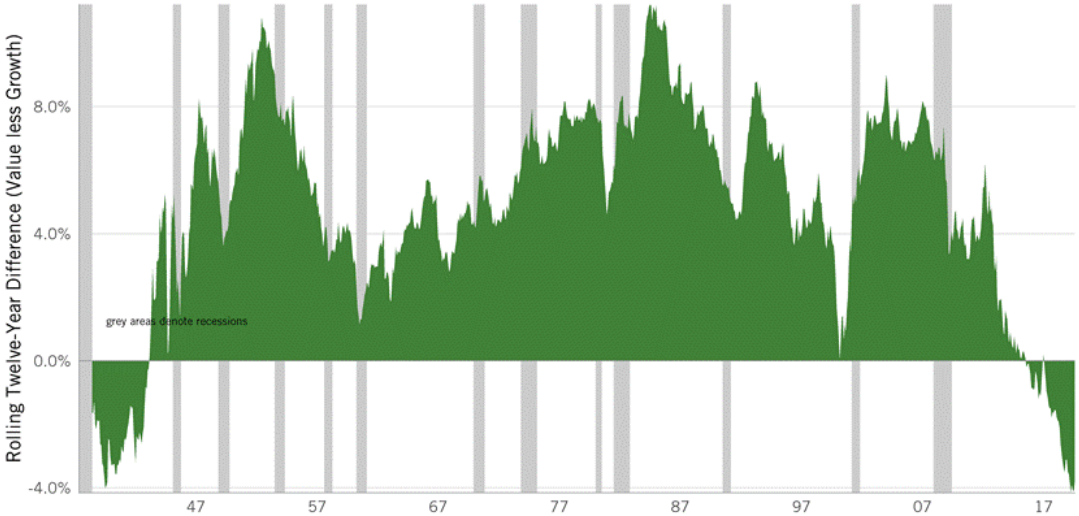
THE PRUDENT SPECULATOR
Only Two 12-Year Laggings for Value

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 07.31.19. 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. Annualized total return. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

…especially as its attractiveness relative to Growth remains at March 2000 levels.

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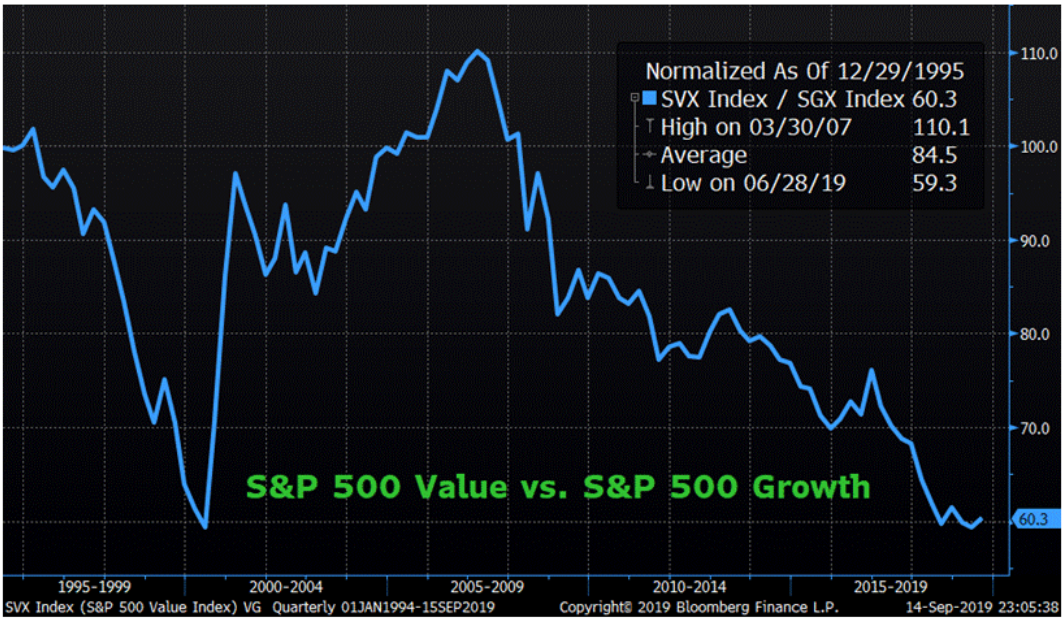
THE PRUDENT SPECULATOR
Value "Buy" Signal Same as March 2000

Value Stocks have come to life over the past few weeks, but there is an extraordinarily long way to go before they would make their way back to equilibrium, much less reassert their historical dominance over Growth.



Needless to say, we think the resurgence of Value is hardly a negative unless one is invested in stocks that trade for high multiples of book value,…

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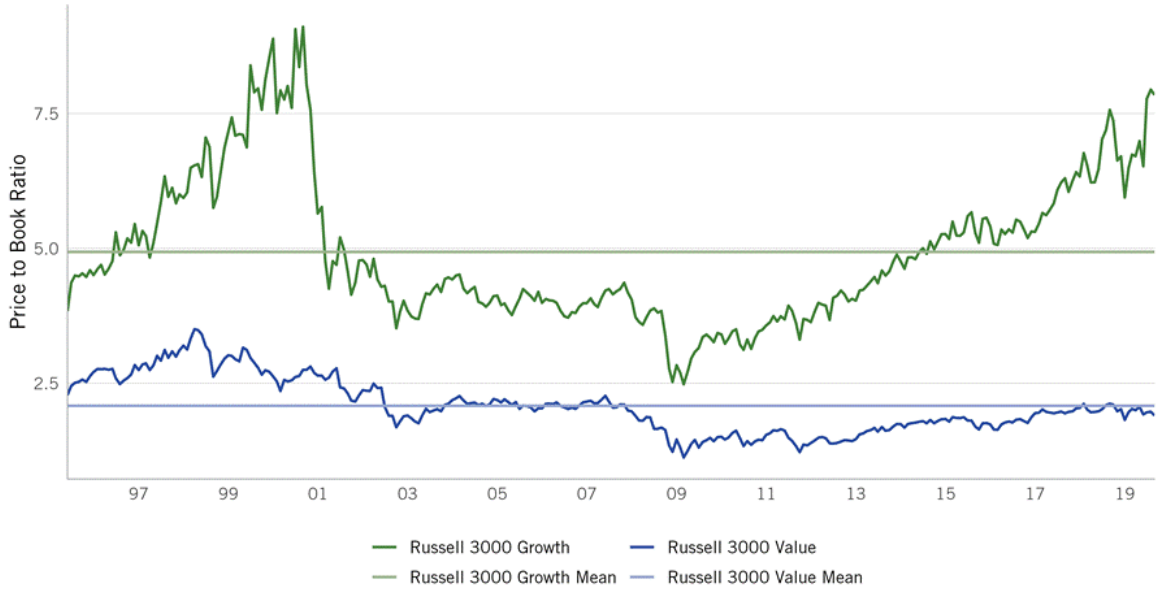
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Book Value

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 08.30.19. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…sales,…

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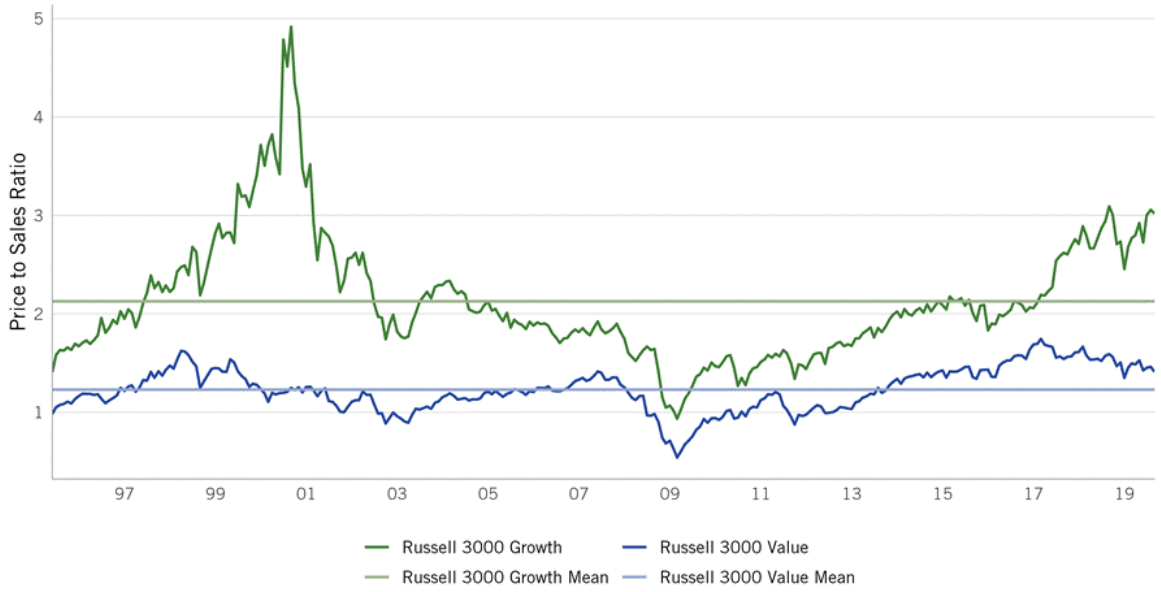
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Sales

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 08.30.19. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…or earnings.

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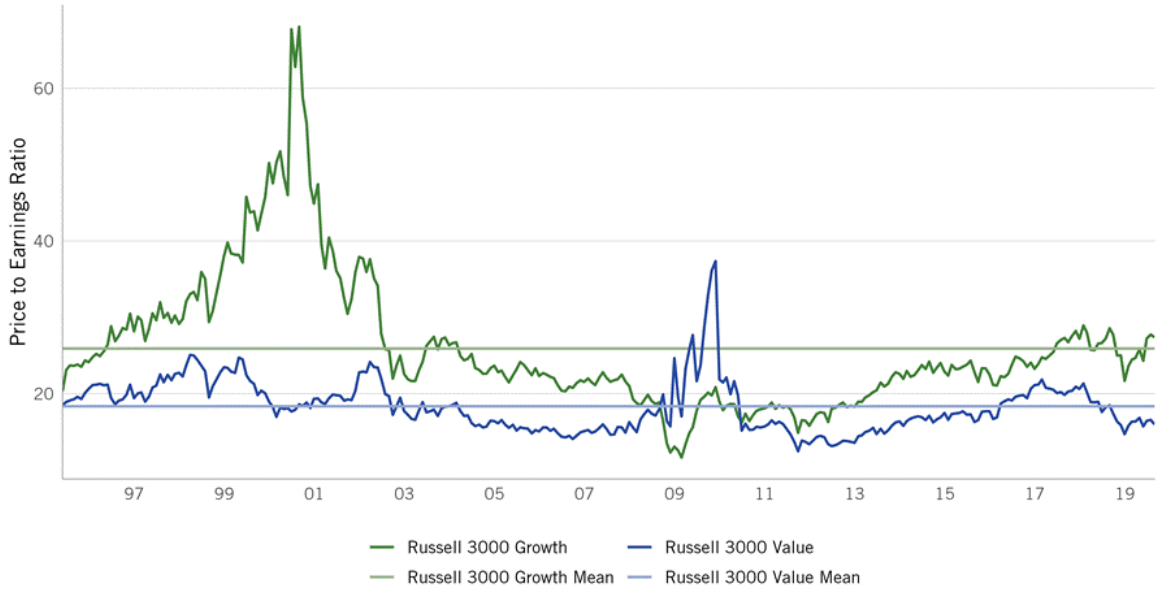
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Earnings

Value stocks are trading below their historical mean on a P/E ratio basis whereas Growth stocks are priced above their much-higher mean.



From 05.31.95 through 08.30.19. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

Of course, no matter how attractively priced Value stocks may be, the equity markets likely will remain quite volatile, with skyrocketing energy prices caused by the drone strikes of Saudi oil production the latest headwind with which investors must contend. There is always something to worry about, which is why we sleep better at night knowing our portfolios have inexpensive financial metrics and generous dividend 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	13.4	12.2	1.1	2.0	3.0
Select Value	14.1	12.6	1.2	2.0	2.6
Select Dividend	13.9	12.6	1.0	2.0	3.3
Select Focused Dividend	12.8	12.0	0.9	2.2	3.4
Select Focused Value	14.1	12.9	1.4	2.3	2.7
Select SMID Dividend	13.1	12.0	0.6	1.5	3.1
Russell 3000	20.9	19.1	2.0	3.2	1.8
Russell 3000 Growth	27.7	24.3	3.1	7.9	1.2
Russell 3000 Value	16.7	15.6	1.5	2.0	2.5
Russell 1000	20.3	18.7	2.2	3.3	1.9
Russell 1000 Growth	26.7	23.5	3.4	8.4	1.2
Russell 1000 Value	16.3	15.4	1.6	2.1	2.5
S&P 500 Index	19.7	18.2	2.2	3.4	1.9
S&P 500 Growth Index	25.3	22.4	3.8	5.7	1.4
S&P 500 Value Index	15.7	15.1	1.5	2.4	2.4
S&P 500 Pure Value Index	11.9	11.1	0.6	1.2	2.8

As of 09.14.19. 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.

And, for those looking to add Value names that are still lagging this year, even after many have had a nice go of it so far in September, we publish below the 25 weakest TPS performers thus far in 2019, remembering the Warren Buffett quote, “Whether we’re talking about socks or stocks, I like buying quality merchandise when it is marked down.”

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THE PRUDENT SPECULATOR
Value Renaissance TPS Selections

Undervalued Selections Still Yet to Have Their Day in the Sun

Symbol	Common Stock	MTD Return %	YTD Return %	9.13.19 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
DBI	Designer Brands	2.0	-30.2	$16.82	$27.90	Retailing	10.9	0.4	2.1	6.3	9.2	2.2	193%	6.0%	1,218
GT	Goodyear Tire	22.1	-29.5	$14.00	$23.28	Autos & Components	8.6	0.2	0.8	9.6	5.7	-1.9	155%	4.5%	3,273
GBX	Greenbrier Cos	26.9	-23.6	$29.56	$43.17	Capital Goods	12.2	0.3	0.9	5.4	5.3	-29.0	44%	3.4%	968
TPR	Tapestry	23.7	-22.7	$25.18	$40.87	Consumer Dur & Apparel	9.8	1.2	25.4	19.0	6.4	13.5	561%	5.3%	7,252
FL	Foot Locker	11.4	-22.6	$40.31	$72.15	Retailing	8.5	0.5	1.8	20.8	5.7	11.6	123%	3.8%	4,301
MOS	Mosaic	23.5	-22.0	$22.65	$40.84	Materials	12.0	0.9	1.0	2.5	8.6	-2.1	54%	0.9%	8,758
HAL	Halliburton	8.6	-21.9	$20.27	$51.30	Energy	13.6	0.7	2.7	14.5	7.3	1.3	168%	3.5%	17,773
BIIB	Biogen	7.7	-21.4	$236.63	$427.58	Pharma, Biotech	7.8	3.1	12.4	42.0	6.1	13.6	181%	0.0%	43,699
KSS	Kohl's	13.0	-17.6	$52.70	$71.32	Retailing	9.8	0.4	1.5	13.5	6.3	12.0	106%	5.1%	8,418
WBA	Walgreens Boots Alliance	9.4	-16.1	$55.99	$97.09	Food & Staples Retailing	9.3	0.4	nmf	18.6	9.0	8.4	nmf	3.3%	50,590
PFE	Pfizer	3.8	-13.2	$36.91	$43.88	Pharma, Biotech	12.0	3.8	nmf	19.6	11.3	5.7	nmf	3.9%	203,764
NOV	National Oilwell Varco	11.9	-10.7	$22.81	$34.72	Energy	nmf	1.0	2.0	-48.9	-2.3	0.7	74%	0.9%	8,775
COHU	Cohu	20.6	-9.5	$14.38	$20.70	Semiconductors	27.2	1.1	nmf	-22.9	-31.8	3.7	nmf	1.7%	591
ALB	Albemarle	12.8	-8.8	$69.28	$116.00	Materials	12.3	2.2	4.0	nmf	10.1	-4.3	81%	2.1%	7,354
JNPR	Juniper Networks	5.7	-7.7	$24.27	$35.93	Technology Hardware	13.6	1.9	8.0	11.0	10.8	6.4	158%	3.1%	8,402
NTAP	NetApp	17.7	-3.3	$56.57	$76.63	Technology Hardware	13.7	2.3	nmf	71.0	9.0	8.5	nmf	3.4%	13,447
KR	Kroger	10.8	-2.9	$26.23	$33.72	Food & Staples Retailing	12.4	0.2	4.7	20.5	7.8	5.4	417%	2.4%	20,937
BMY	Bristol-Myers Squibb	2.8	-2.3	$49.43	$68.02	Pharma, Biotech	11.5	3.4	9.5	44.0	10.2	7.7	293%	3.3%	80,801
CMA	Comerica	7.5	-1.8	$65.60	$105.14	Banks	8.4	nmf	1.5	16.3	nmf	nmf	nmf	4.1%	9,807
SIEGY	Siemens AG	7.4	-0.6	$53.62	$83.31	Capital Goods	18.0	1.9	14.7	9.8	11.1	3.6	483%	3.0%	91,018
HSBC	HSBC Holdings PLC	9.0	0.2	$39.14	$52.01	Banks	10.9	nmf	0.9	8.9	nmf	nmf	nmf	6.5%	157,906
CVS	CVS Health	5.2	0.4	$64.06	$103.33	Health Care Equip/Srvcs	8.7	0.4	nmf	8.9	11.7	10.8	nmf	3.1%	83,225
BK	Bank of New York	11.5	1.4	$46.90	$58.73	Diversified Financials	11.7	nmf	2.5	9.9	nmf	nmf	nmf	2.6%	44,150
GLW	Corning	8.3	1.8	$30.16	$42.77	Technology Hardware	15.5	2.0	3.0	12.4	9.9	-0.7	82%	2.6%	23,649
TOT	Total SA	3.9	2.0	$51.85	$90.12	Energy	11.3	0.8	1.4	9.3	5.5	9.3	46%	4.6%	138,013

As of 9.13.19. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

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," while a listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/.

Apple's (AAPL – $218.75) annual Apple Worldwide Developers Conference (WWDC) featured new iPhones, an updated Apple Watch, a new iPad and a subscription streaming service. Shares rose about 2% for the week, as analysts and investors digested the releases.

CEO Tim Cook said of the iPhone range, "iPhone and the incredible capabilities that it puts into people's hands has changed the way we live our lives in ways that we never could have imagined. It's become so essential for hundreds and hundreds of millions of people all over the world. It's changed industries and led to the creation of entirely new ones and it's made a profound impact on all of our daily lives…Last year we launched three incredible iPhones. The iPhone XR became the most popular iPhone and the most popular smartphone in the world. We also launched the iPhone XS and the iPhone XS Max, the most advanced iPhones we have ever created. Today, I am thrilled to share with you the newest iPhone. This is iPhone 11, the next

generation of iPhone and it is jam packed with great new capabilities and an incredible new design."

Kaiann Drance, Senior Director of iPhone Worldwide Product Marketing said, "iPhone 11 has a beautiful anodized aluminum and glass design and that glass, it's the toughest ever in a smartphone on the front and back. And the glass that surrounds the camera has a sculpted 3D geometry and it was precision milled down from a single piece of glass to achieve this elegant look. iPhone 11 comes in six new colors with an all new purple, white, yellow, green, black and Product Red." Phil Schiller , SVP of Worldwide Marketing presented another new iPhone 11 Pro, "This is the first phone that we've called Pro and for us that means it's a device that pros can count on to get their work done, but it's also a product for all of us who want simply the best product made, even if we're not a pro. This is the most advanced and detailed iPhone we've made yet. It's made of a surgical-grade stainless steel. That back is a single piece of machine glass with an optical PV decoding. There is a beautiful new matte textured finish that looks great and feels awesome in your hand. iPhone 11 Pro comes in some gorgeous new finishes. This is an all-new midnight green. There is a very pro space grey, a beautiful silver, and a new gold."

The new devices seem to be improvements on the outgoing models, but perhaps they lean more toward being evolutions of already-solid products than groundbreaking devices. The two-year upgrade cycles in the U.S. market are generally dead, with folks either buying phones outright or financing the devices interest-free for about two years. That has stretched out the replacement cycle for iPhones, which certainly was a shock in the first year or two when Apple and wireless carriers rolled out the changes. But we are a few years down the road now and we think that folks are going to need to upgrade their now-wearing-out devices. That should prop up demand, as markets like China and India continue to grow.

As far as other devices, iPad gained a new 10.2 inch Retina display and support for a full-size keyboard, while Apple Watch now stays on continuously, an improvement over the first generations that required a wrist raise or flick to wake the watch. Apple TV+ starts on November 1 and is priced at $4.99 per month. The service will feature on-demand television and a variety of proprietary content. It has been reported that Apple has five series with completed production and another six with filming underway.

Though Apple TV+ is obviously a competitive threat, and **Walt Disney** (DIS – $138.02) CEO Robert Iger not coincidentally just resigned from the Apple board, we continue to like the entertainment giant and our Target Price for DIS is presently $161.

While Apple didn't release anything that knocked our socks off, we think that the new wares will sell well as customers replace aging devices and add new ones. Even though Apple is once again nearing all-time highs set last October, we think that the valuation remains reasonable, with metrics like a forward price to earnings ratio of 17.7, a free cash flow yield of 6.6% and a dividend yield of 1.4%. We have ratcheted our Target Price for AAPL up to $238.

System software firm **Oracle** (ORCL – $53.75) reported earnings per share of $0.81, versus the $0.81 estimate, in fiscal Q1 2020. ORCL had sales of $9.2 billion, versus the $9.3 billion estimate. Shares tumbled 4.3% following the announcement, after Co-CEO Mark Hurd

announced that he would be taking a health-related leave of absence. While we haven't been thrilled with some of Mr. Hurd's choices (who came to Oracle as Co-President in 2010 and Co-CEO in 2014, after being pushed out at Hewlett-Packard), he will be missed, though Oracle has plenty of bench strength and executive suite talent.

Speaking of which, Co-CEO Safra Catz said, "Total Cloud Services and License Support revenues for the quarter were $6.8 billion, up 4% and accounting for nearly 3/4 of total company revenues, and most of all of this revenue is recurring. Cloud and On-Premise License revenues were $812 million, down 6%, coming off 15% license growth last quarter. And as a reminder, because Q1 is normally our smallest quarter, we tend to see more volatility in new software license growth rates in Q1 This quarter, we repurchased 89 million shares for a total of $5 billion. Over the last 12 months, we've repurchased 611 million shares for a total of $31 billion. And over the last 5 years, we have reduced the shares outstanding by more than 25%. The Board of Directors increased the authorization for share repurchases by an additional $15 billion and again declared a quarterly dividend of $0.24 per share."

Ms. Catz added, "My guidance today is on a non-GAAP basis and in constant currencies. Assuming current exchange rates remain the same as they are now, currency should have a 1% negative effect on total revenue and $0.01 negative on EPS. Of course, that could change. So for Q2, total revenues are expected to grow 1% to 3% in constant currency. And assuming a 1% currency headwind, total revenues are expected to grow from 0 to 2% in U.S. dollars. Non-GAAP EPS in constant currency is expected to grow between 10% to 12% and be between $0.88 and $0.90 in constant currency. And assuming the $0.01 headwind, non-GAAP EPS in U.S. dollars is expected to grow between 9% and 11% and be between $0.87 and $0.89. For fiscal 2020 and the third consecutive fiscal quarter, I expect that we will report double-digit EPS growth in constant currency. Total CapEx for fiscal year '20 is expected to be around $2.2 billion, but it could move a little depending on our bookings and how much we need to invest to accommodate them."

Founder Larry Ellison said, "We've added many customers to Autonomous Database that weren't Oracle customers at all. 13% of the people using Autonomous Database had never bought a database from Oracle Corporation. 43% of the workloads that are going on to Autonomous Database are net new. They're not moving them from on-premise to the Autonomous Database, but half of them move from on-premise to Autonomous Database. Almost the other half, 43%, are just net-new applications. We've had some fabulous wins in the quarter. Obviously, I'm not going to mention — we have over 500 wins, Autonomous Database wins, in the quarter. I'm not going to mention all 500. But 7-Eleven is moving all their point-of-sale data to the Autonomous Data warehouse, Cargojet Canada, Johnson Controls, LATAM Airlines is moving their on-premise data centers to OCI to get the advantage and security of the Autonomous Database. Siemens Energy, Stanley Black & Decker, getting much faster data reporting on their analytics. Oh, yes, and one more company, moving to the Autonomous Database is Uber."

We continue to be encouraged by the possibilities in the cloud business—and big wins in the last few quarters—and we believe that ORCL still has the right leadership team in place that will drive top-line growth to the bottom line. We have been pleased with ORCL's execution, after a

difficult initial transition to the subscription model, and think that despite the fierce cloud competition, there is plenty of room for more than one firm to be successful. We think that ORCL shares remain undervalued, trading for just 13.5 times forward earnings. Our Target Price is $64. ORCL currently yields 1.8%.

Despite turning in solid quarterly results, shares of **Kroger Co.** (KR – $26.23) dropped more than 9% in early trading Thursday (after initially rallying) as investors seemed spooked that management of the grocery store operator wouldn't reconfirm its three-year forecast to generate $400 million in incremental profit. Despite the Thursday morning dip, the stock rebounded to end the week up more than 6%, as KR announced that same-store sales rose 2.2% in fiscal Q2 2020, exceeding expectations and the same period last fiscal year. Additionally, the company said that adjusted EPS came in at $0.44, versus consensus analyst estimates of $0.42. Revenue for the period of $28.2 billion came in below forecasts of $28.3 billion. Digital sales grew 31% during the period, while margins were hurt by lagging performance of the company's in-store pharmacies.

CEO Rodney McMullen said, "The Restock Kroger framework is designed to reposition our core business by 2020 while continuing to deliver for shareholders. We are pleased with the improvement of trends in our supermarket business in the second quarter. Guided by our customer obsession, Kroger delivered our best identical sales, without fuel, result since the launch of our transformation plan. FIFO gross margin, without fuel and pharmacy, was stable in our supermarket business. Gross margin headwinds in pharmacy were offset by strong fuel performance during the quarter. We continue to reduce costs and are on track to deliver $100 million in incremental operating profit through alternative profit stream growth. We delivered strong free cash flow and are now within our targeted net total debt to adjusted EBITDA range. Kroger is laser-focused on executing against our 2019 plans and realizing our vision of serving America through food inspiration and uplift."

While management wasn't willing to reaffirm its three-year forecast, the company did maintain full-year guidance of $2.15 to $2.25, with same-store sales growth in the range of 2% to 2.25%. Management wants investors to be patient, as we are, while the company continues to be transformed in the midst of heightened competition. While the transformation will take time, it is continuing to produce benefits. Additionally, Kroger has been developing new businesses, such as selling consumer data and targeted advertising. The company said those efforts would yield $100 million in incremental operating profit in its current fiscal year compared with the prior one.

There is no doubt that competitive threats remain from the likes of Amazon, **Walmart** (WMT – $117.43), **Target** (TGT- $107.99), Aldi and numerous others, but Kroger has been battling competition for years. We remain constructive on the company's makeover and focus on investing in online abilities as well as improving the customer experience in physical stores. KR shares trade at a reasonable 11.8 times NTM adjusted EPS projections, while the stock yields 2.4%. Our Target Price on KR is presently $34.

Fertilizer and agricultural chemical firm **Mosaic** (MOS – $22.65) has had a miserable year, with falling fertilizer sales, lower margins and trade-related headwinds each taking their toll at various

times. Yet the company's shares jumped this past week by more than 17% after Mosaic announced a slew of strategic moves that are expected to increase shareholder value.

The press release said, "Mosaic plans to initiate $250 million in stock repurchases under its existing share repurchase authorization, which has $850 million of remaining capacity. Effective October 1, Mosaic will idle its Louisiana phosphates operations to reduce production by approximately 500,000 tonnes in 2019. The move is expected to accelerate the reduction of high phosphate fertilizer inventories. Mosaic continues to expect strong fall fertilizer application in North America and expects a more balanced global supply-and-demand picture to emerge by 2020. Mosaic Fertilizantes, the company's Brazil-based business unit, has implemented actions necessary to meet or exceed its previously announced synergy target of $275 million in 2019. In addition, Mosaic Fertilizantes announced that it intends to drive an additional $200 million in annual value through ongoing business transformation efforts by the end of 2022."

"Mosaic's stock currently presents an exceptional opportunity to deploy capital. We believe that these repurchases are the best use of our capital in today's environment, and we will continue to evaluate the amount we repurchase based on expected cash flow," asserted CEO Joc O'Rourke.

"Phosphate prices have declined further through the summer, with excess imports continuing to enter the U.S. on top of high channel inventories," Mr. O'Rourke said. "We expect our move to idle production to tighten supply and rebalance the market. Mosaic will prioritize shipments to meet key customer needs through the idling period."

"We believe taking these steps now will further enhance Mosaic's ability to benefit from expected strong business conditions in 2020," Mr. O'Rourke added.

Fertilizer prices remain volatile as a result of ever-changing supply and demand dynamics. We think that the near term challenges smooth out over the long term, as 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 is likely to post trough earnings in the $1.13 range this year, but EPS should rebound to $1.90 or so in 2020. Our Target Price currently resides at $41.

Shares of **MDC Holdings** (MDC – $42.38) rose 9% last week, hitting their highest price in more than a decade after the homebuilder reported preliminary net new order activity that it released in anticipation of meetings with investors this week. Additionally, MDC received multiple analyst upgrades and target price increases.

The company said that for the first two months of Q3, net new home orders increased an incredible 63% year-over-year to 1,418, compared with 868 for the same period in 2018. The increase was driven by a 40% improvement in the monthly sales absorption rate to 3.75 and a 17% increase in the average number of active subdivisions to 189.

CEO Larry A. Mizel commented, "We are pleased with the continued success of our more affordable product lines and distinct build-to-order model. These key strategies, coupled with a

notable improvement in our community count, helped to drive a 63% year-over-year increase in net new home orders for the first two months of the 2019 third quarter. With the continued strength in order activity, we believe we are well positioned for a strong close to the 2019 fiscal year."

MDC has had a terrific 2019, returning more than 66% including dividends. While we are contemplating whether some of our portfolios might soon need their positions trimmed, we have no intention of getting rid of our full position at this time as we still believe that shares remain undervalued. MDC trades for just 10.9 times forward earnings estimates and offers investors a dividend yield of 2.8%.

While interest rates increased this past week, we are still very much at the low end of the historic range, which we expect to remain lower for longer, helping MDC as the cost of borrowing for both it and its potential customers remains quite attractive. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet, with ample liquidity that the company can use to smartly acquire land in attractive markets. Additionally, we continue to like MDC's focus on first time buyers (many Millennials) with its Season collection of homes. Our Target Price for MDC has been boosted to $49.