Market Commentary Monday, November 18, 2019

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EXECUTIVE SUMMARY

Emotional Roller Coaster – Dow 28000
Sentiment – Bullish, but not Overly Optimisitc
Econ News – Solid Statistics; Powell Upbeat on Capitol Hill
Reasons to Like Stocks – Earnings and Dividends
Retirement Income – *Barron's* Says Equities the Place to Be for Long-Term-Oriented Investors
Undervalued Dividend Payers – 30 *Barron's*-esque Names
Target Prices – New Listing Posted to theprudentspeculator.com
Stock Updates – CSCO, NTAP, DIS, WMT, KLIC, DPSGY & TSN

Market Review

While it was a ho-hum week for many inexpensively priced stocks, given that the S&P 500 Pure Value index was flat for the five trading days, the Dow Jones Industrial Average closed at a record high on Friday, climbing above another milestone, this time eclipsing 28000 for the first time.

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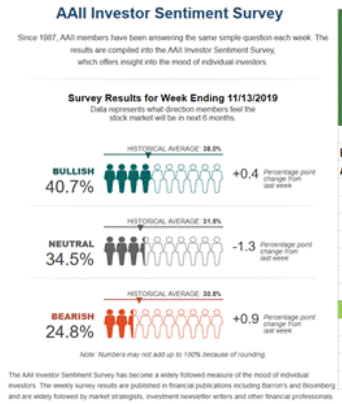
THE PRUDENT SPECULATOR
Managing Emotions a Challenge

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, Mr. Tuchman had seemingly pulled all of his hair out as stocks plunged not too long ago after an escalation in the trade skirmish, only to be all smiles on Nov. 15, when the Dow closed above 28000 for the first time!

No doubt, folks are feeling better about equities today, even as the details are hardly worked out on "Phase 1" of a U.S.-China trade agreement, while the Impeachment drama continues to play out on Capitol Hill.

THE PRUDENT SPECULATOR
AAII Sentiment – Higher Bullishness

After dipping to 20.3% on October 9, 2019, the lowest in three-and-one-half years, expectations that stocks will rise over the next six months, has now jumped to 40.7%. While those of us who like the contrarian nature of the AAII Sentiment Survey would prefer more pessimism, the current level of optimism is not too far from the 38.0% normal reading, while stocks generally have done fine over the ensuing 6-month periods when the Bull-Bear Spread is near today's +15.9% level.



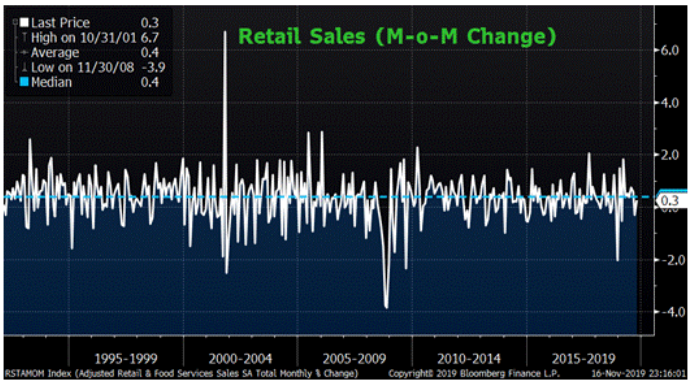
AAII Bull-Bear Spread

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	-54.0	8.0	855	0.24%	0.21%	1.17%	1.04%	3.24%	2.86%	6.46%	5.75%
ABOVE	8.1	62.9	829	0.16%	0.15%	0.48%	0.40%	1.99%	1.75%	4.55%	4.06%
Ten Groupings of 1653 Data Points											
1	-54.0	-14.6	169	0.36%	0.30%	1.49%	1.25%	4.36%	3.77%	8.28%	7.02%
2	-14.4	-7.0	174	0.42%	0.39%	1.28%	1.15%	3.81%	3.47%	6.77%	6.10%
3	-6.8	-1.0	169	0.27%	0.24%	1.62%	1.53%	3.23%	2.84%	6.72%	6.04%
4	-0.9	3.3	162	0.15%	0.12%	0.98%	0.90%	2.42%	2.10%	5.79%	5.38%
5	3.3	8.0	181	0.03%	0.00%	0.51%	0.41%	2.39%	2.14%	4.81%	4.30%
6	8.1	12.2	155	0.17%	0.15%	0.48%	0.39%	1.74%	1.52%	4.63%	4.12%
7	12.3	16.6	169	0.16%	0.14%	0.82%	0.74%	2.78%	2.57%	5.49%	5.07%
8	16.7	22.0	168	0.16%	0.15%	0.62%	0.54%	2.05%	1.79%	5.86%	5.42%
9	22.0	29.5	168	0.06%	0.05%	0.23%	0.15%	1.98%	1.73%	4.17%	3.59%
10	29.6	62.9	169	0.26%	0.24%	0.26%	0.18%	1.38%	1.15%	2.59%	2.14%

From 07.31.87 through 11.14.19. Unannualized. SOURCE: Kovitz Investment Group using data from American Association of Individual Investors and Bloomberg

Certainly, developments in Washington are important, but it would seem that more attention is being paid to the economy, whereby the latest statistics were not too bad,…

Solid Retail Sales & Small Biz Optimism

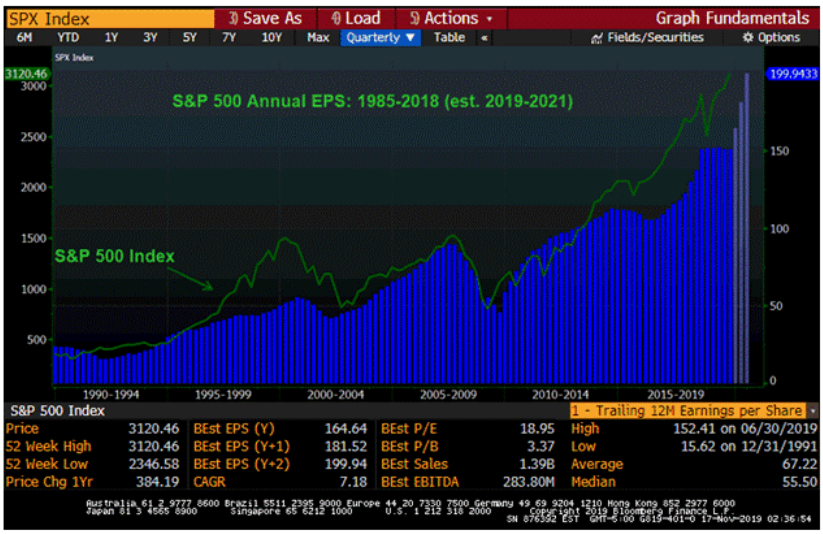


Uncle Sam said that retail sales for October came in stronger-than-projected with a decent gain of 0.3%. Sales of automobiles rose 0.5% and gasoline station sales jumped 1.1%, but sales at clothing stores fell 1.0%. Also, the NFIB Small Business Optimism Index for October topped estimates by rising to 102.4, with more respondents saying that they were planning to increase inventories and add to capital outlays.

…and Federal Reserve Chair Jerome Powell told Congress's Joint Economic Committee this past Wednesday, "We see the current stance of monetary policy as likely to remain appropriate as long as incoming information about the economy remains broadly consistent with our outlook of moderate economic growth, a strong labor market and stable inflation…Of course, if developments emerge that cause a material reassessment of our outlook, we would respond accordingly."

Happily, a decent economic backdrop has helped Q3 profit reports from Corporate America to be pretty good, with Standard & Poor's reporting that 74.6% of the S&P 500 members to have announced results thus far have exceeded analyst estimates for the bottom line and 59.1% have topped expectations for the top line. To be sure, management teams were guarded in their commentary regarding their company outlooks, but it is likely that earnings per share will continue to grow,…

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	$46.44	$177.05
9/30/2020	$46.00	$171.35
6/30/2020	$43.81	$165.60
3/31/2020	$40.80	$161.93
12/31/2019	$40.74	$159.12
9/30/2019	$40.25	$153.41
ACTUAL		
6/30/2019	$40.14	$154.54
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 11.11.19

…which will enable a continuation of dividend generosity,…

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THE PRUDENT SPECULATOR
Dividends Provide Handsome Income

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2019 (as of 11.12.19)	306	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3

Source: Standard & Poor's.

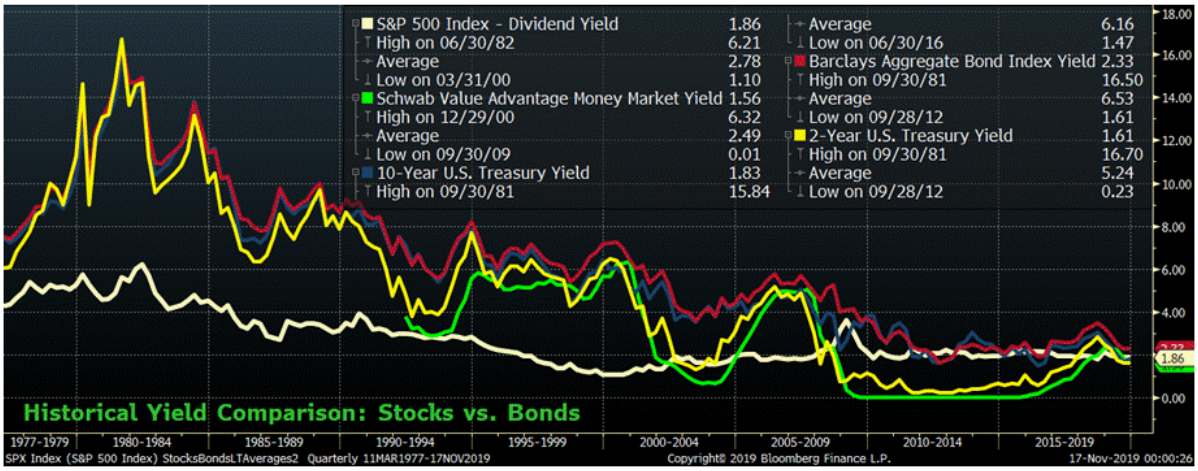
S&P 500 DIVIDENDS PER SHARE	
2020 (Est.)	$63.00
2019 (Est.)	$59.01
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88

Source: Bloomberg. As of 11.15.19

…adding to the competitiveness of stocks from an income perspective.

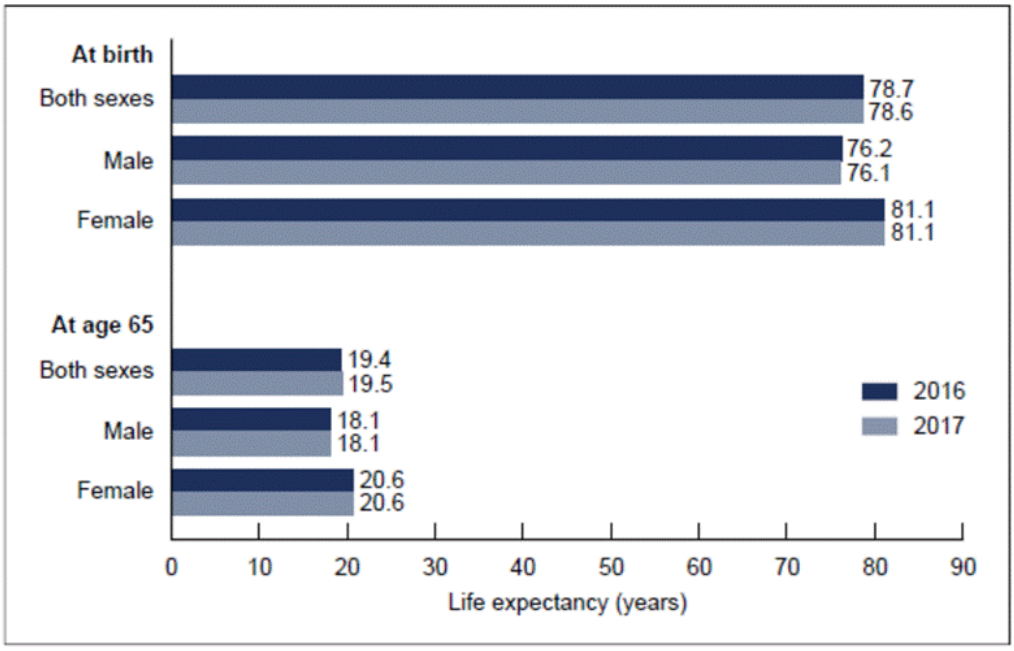
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for bonds, U.S. Treasuries and money market funds, the current payout on the S&P 500 (1.86%) is still very generous versus the income provided by fixed income. And, the comparison to the average yields for all of the securities below over the past four-plus decades very much favors equities.



And speaking of income, *Barron's Magazine* featured a cover story this past Saturday entitled, *Retirement Savers Are Turning to Dividend Stocks for Income. Here's How to Use Them in Your Portfolio*. The author of the piece was kind enough to include your Editor in the list of folks that he interviewed and quoted, with my contributions drawn from that which has been referenced above, not to mention the observation that the challenge for older folks these days is that they need retirement dollars to support some two decades of living, and that is just if they are average in terms of their life expectancy.

Figure 1. Life expectancy at selected ages, by sex: United States, 2016 and 2017



NOTES: Life expectancies for 2016 were revised using updated Medicare data; therefore, figures may differ from those previously published. Access data table for Figure 1 at: https://www.cdc.gov/nchs/data/databriefs/db328_tables-508.pdf#1.
SOURCE: NCHS, National Vital Statistics System, Mortality.

To be sure, we fully respect that older investors fear that they will not have time to make up losses in their portfolios should their market timing be unlucky, but the current extraordinarily low interest rate environment increases the odds that equities will prove more rewarding than most fixed income instruments. For example, looking at the historical evidence dating back more than nine decades, Value Stocks and Dividend Payers have enjoyed returns in excess of the 2.30% yield presently available on the 30-year U.S. Treasury more than 86% of the time, if held for five years. And those numbers jump to more than 94% if those types of stocks are held for 10 years!

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THE PRUDENT SPECULATOR
The Longer the Hold, the Lower the Risk

While many view bonds as much less risky than equities, given that fixed income investments generally boast lower volatility, it is hard to fathom why anyone with a truly long-term time horizon would favor a 30-year U.S. Treasury today, with its 2.30% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.3%	Count <=2.3%	Percent >2.3%
1 Month	684	423	61.8%
3 Months	727	378	65.8%
6 Months	754	348	68.4%
1 Year	779	317	71.1%
2 Year	871	213	80.4%
3 Year	914	158	85.3%
5 Year	910	138	86.8%
7 Year	963	61	94.0%
10 Year	947	41	95.9%
15 Year	919	9	99.0%
20 Year	868	0	100.0%

DIVIDEND PAYERS

	Count >2.3%	Count <=2.3%	Percent >2.3%
1 Month	680	427	61.4%
3 Months	725	380	65.6%
6 Months	763	339	69.2%
1 Year	795	301	72.5%
2 Year	887	197	81.8%
3 Year	880	192	82.1%
5 Year	911	137	86.9%
7 Year	940	84	91.8%
10 Year	929	59	94.0%
15 Year	902	26	97.2%
20 Year	868	0	100.0%

From 07.31.27 through 09.30.19. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

Yes, past performance is no guarantee of future performance, and investors must always remember that the secret to success in stocks is not to get scared out of them when they inevitably take a turn south,…

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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%	109.0%	932	26	3.5	3/9/2009	11/15/2019
17.5%	66.7%	578	38	2.4	12/24/2018	11/15/2019
15.0%	66.4%	562	44	2.1	12/24/2018	11/15/2019
12.5%	43.9%	334	71	1.3	12/24/2018	11/15/2019
10.0%	34.5%	244	97	0.9	12/24/2018	11/15/2019
7.5%	23.4%	148	154	0.6	12/24/2018	11/15/2019
5.0%	14.7%	73	300	0.3	8/14/2019	11/15/2019

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 11.15.19. 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	13.1%	25.9%
Growth Stocks	9.4%	21.4%
Dividend Paying Stocks	10.5%	18.0%
Non-Dividend Paying Stocks	8.7%	29.4%
Long-Term Corporate Bonds	6.1%	7.6%
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 09.30.19. 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

…but, as *Barron's* penned, "John Buckingham agrees that the portion of a portfolio that's designated to earn returns for five years out and beyond should be pretty much all in stocks, 'provided that you have the discipline and patience to stick with it, and that's a big caveat.'…'There's just not a lot of excitement in bonds or other fixed-income type investments,' he adds. Dividends typically go up every year, 'and that's likely to increase as corporate profits grow.' Bond coupons, meanwhile, are often fixed."

The piece also featured seven stocks that we believe are undervalued while generating solid income, with *Barron's* providing the reminder, "'We are not buying dividend stocks just for the sake of dividends,' says Buckingham. 'We're seeking capital appreciation, as well.'" Those comments in mind, we offer our readers those seven *Barron's* names and 23 other inexpensively priced selections, all of which still boast dividend yields above that of the 30-year U.S. Treasury, despite record highs on the major market averages.

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THE PRUDENT SPECULATOR
Undervalued Income Producers

Undervalued Dividend Payers Yielding > 30-Year U.S. Treasury

Symbol	Common Stock	11.15.19 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
ADM	Archer-Daniels-Midland	$42.87	$55.64	Food, Beverage & Tobacco	15.8	0.4	1.8	6.3	13.2	-23.1	61%	3.3%	23,865
AMGN	Amgen	$220.86	$239.66	Pharma, Biotech	15.1	5.6	nmf	63.8	11.6	6.7	nmf	2.6%	131,231
AVGO	Broadcom	$312.91	$416.54	Semiconductors	14.4	5.6	nmf	12.2	16.7	7.5	nmf	3.4%	124,122
AZSEY	Allianz SE	$24.10	$31.04	Insurance	11.5	nmf	1.5	11.5	nmf	nmf	nmf	3.1%	100,539
CAH	Cardinal Health	$56.24	$73.35	Health Care Equip/Srvcs	10.7	0.1	nmf	-121.9	-7.9	8.1	nmf	3.4%	16,450
CAT	Caterpillar	$145.31	$178.24	Capital Goods	13.2	1.5	11.2	39.2	7.5	4.7	363%	2.8%	80,307
CSCO	Cisco Systems	$45.09	$60.07	Technology Hardware	14.2	3.7	nmf	28.1	11.4	7.5	nmf	3.1%	191,354
CVS	CVS Health	$74.29	$106.22	Health Care Equip/Srvcs	9.9	0.4	nmf	9.0	11.3	10.9	nmf	2.7%	96,649
DAL	Delta Air Lines	$56.85	$78.19	Transportation	8.2	0.8	nmf	32.6	5.8	9.4	nmf	2.8%	36,767
DLR	Digital Realty Trust	$118.87	$138.63	Real Estate	17.2	nmf	5.6	2.5	nmf	nmf	nmf	3.6%	25,898
DOC	Physicians Realty Trust	$18.39	$21.78	Real Estate	18.2	nmf	1.5	1.8	nmf	nmf	nmf	5.0%	3,464
GLW	Corning	$29.35	$41.18	Technology Hardware	15.6	1.9	3.0	10.1	9.8	-1.2	88%	2.7%	22,573
GM	General Motors	$36.89	$51.91	Automobiles	5.9	0.4	1.3	21.2	2.3	20.1	181%	4.1%	52,708
HFC	HollyFrontier	$52.54	$73.33	Energy	7.9	0.5	2.8	14.2	5.6	17.4	92%	2.5%	8,479
IBM	Int'l Business Machines	$134.40	$175.80	Software & Services	10.4	1.5	nmf	40.9	10.1	10.7	nmf	4.8%	119,030
ING	ING Groep	$11.69	$16.71	Banks	8.0	nmf	0.8	10.1	nmf	nmf	nmf	5.3%	45,551
IP	Int'l Paper	$45.65	$67.71	Materials	9.1	0.8	4.9	19.0	7.1	12.7	281%	4.5%	17,900
KEY	KeyCorp	$18.97	$25.25	Banks	10.5	nmf	1.5	10.9	nmf	nmf	nmf	3.9%	18,685
KR	Kroger	$26.75	$34.29	Food & Staples Retailing	12.6	0.2	4.8	20.4	7.5	5.2	412%	2.4%	21,443
KSS	Kohl's Corp	$59.08	$71.32	Retailing	11.0	0.5	1.7	13.5	6.5	10.8	106%	4.5%	9,401
MAN	Manpower	$93.26	$134.78	Commercial & Prof Serv	11.8	0.3	4.6	17.9	7.1	10.9	109%	2.3%	5,499
PFE	Pfizer	$37.28	$44.95	Pharma, Biotech	12.3	3.9	nmf	23.8	12.3	5.4	nmf	3.9%	206,312
PRU	Prudential Fin'l	$93.65	$131.50	Insurance	7.9	nmf	0.6	6.9	nmf	nmf	nmf	4.3%	37,647
RCL	Royal Caribbean	$117.89	$155.90	Consumer Services	12.2	2.3	2.3	16.5	10.6	1.4	89%	2.6%	24,713
SLB	Schlumberger	$35.36	$70.77	Energy	24.6	1.5	nmf	-32.9	-10.5	7.5	nmf	5.7%	48,952
SYF	Synchrony Fin'l	$37.05	$53.63	Diversified Financials	8.7	nmf	1.9	26.1	nmf	nmf	nmf	2.4%	23,941
T	AT&T	$39.50	$42.76	Telecom Services	11.1	1.6	nmf	8.9	7.8	10.0	nmf	5.2%	288,548
TOT	Total S.A.	$54.39	$86.19	Energy	12.7	0.8	1.6	8.4	6.0	11.2	53%	4.4%	145,058
TPR	Tapestry Inc.	$26.76	$41.19	Consumer Durables	10.7	1.2	nmf	16.9	9.7	6.8	nmf	5.0%	7,384
WHR	Whirlpool	$144.36	$200.68	Consumer Durables	9.1	0.4	nmf	39.6	7.0	7.7	nmf	3.3%	9,124

As of 11.15.19. 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

Jason Clark and Chris Quigley offer updates on 7 of our companies that were out with news this past week of sufficient importance to trigger a review of their Target Prices (our latest full listing of our assessments of fair valuations for all 120+ of our newsletter recommendations was posted to theprudentspeculator.com this past weekend). Keep 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/.

Communications equipment firm **Cisco Systems** (CSCO – $45.09) earned $0.84 per share in fiscal Q1 2020 (vs. $0.81 est.). CSCO had revenue of $13.16 billion, versus the $13.09 billion estimate. CSCO shares fell 7% on the news, as guidance for fiscal 2020 included a 3% to 5% drop in year-over-year revenue. Even so, adjusted EPS for Q2 is expected to be between $0.75 and $0.77, which would still be higher than the $0.73 CSCO saw in fiscal Q2 2019.

CEO Chuck Robbins explained, "We delivered a solid quarter against a challenging macro environment. While we're pleased with this performance, we're most focused on the environment as we move forward. We'll discuss this more in a moment. What's happening inside Cisco, regardless of the macro, is an unrelenting focus on driving innovation, transforming our business and exceeding our customers' expectations. In Q1, as you've seen, we had revenue

growth of 2% and double-digit non-GAAP earnings per share growth. We also delivered strong non-GAAP gross margins and non-GAAP operating margins, along with solid operating cash flow. We continue to invest in innovation and expand our market opportunities, while maintaining our commitment to maximizing shareholder return."

"Over the last year, many of you have heard me talk about the resilience of the global macro environment. However, on our last earnings call, we indicated that we had begun to see some weakness, and that weakness continued throughout Q1 and was more broad-based. While the main challenges continue to be service provider and emerging markets, this quarter, we also saw relative weakness in enterprise and commercial. Despite these headwinds and because of key decisions we made 4 years ago to change our business model, we remain well positioned to capitalize on the tremendous opportunities across cloud, automation, 5G, security and collaboration," continued Mr. Robbins. "Our transition to software continues to progress, and we are on track with where we said we would be at the end of fiscal year 2020. This transition to software not only aligns to how our customers want to consume our technology but we also believe it will lessen the impact of macroeconomic shifts in the future."

While Cisco shares began the year on a tremendous run, the stock price has tumbled since this year's high set in July. Worries surrounding the trade spat with China and a mixed bag from a global macro standpoint have weighed on the shares. We are glad to have trimmed the position in many of our portfolios earlier this year when the stock was approaching what we then believed to be fair value. We only pared the Cisco holdings back to a full position size and we are still happy to hold the balance of our stake. Our belief is that shares are still inexpensive, with forward earnings projections of at least $3.25 each of the next three years, a forward P/E ratio near 14 and a solid 3.1% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price is now $60.

Shares of **NetApp** (NTAP – $62.87) gained more than 5% last week, no doubt thanks in large part to the data storage concern's fiscal Q2 2020 results. Shares have now risen more than 40% including dividends since August 14, which marked the low for NTAP in 2019. NetApp posted Q2 earnings per share of $1.09, versus the consensus estimate of $0.94. Revenue was $1.37 billion, versus the analyst consensus of $1.38 billion. For fiscal Q3, NTAP now expects adjusted EPS to climb to $1.14 to $1.22 per share, with revenue in the $1.39 billion to $1.54 billion range. Net revenue for fiscal 2020 is expected to drop approximately 8% year-over-year.

CEO George Kurian said, "Our Q2 FY '20 results reflect the strength of our business model and the value of our innovation. We delivered gross margin, operating margin and EPS, all solidly above our guidance ranges. Despite the ongoing macroeconomic uncertainty and the potential for continuing unpredictability in enterprise purchasing behavior, the fundamentals of our business are strong. I've just come from 2 great events, NetApp Insight and Microsoft Ignite, and the many conversations I had with customers, prospects and partners both underscore the power of our data fabric strategy to differentiate our solutions and highlight our success in reaching new customers and buying centers to expand our market share."

"I am confident in our ability to return to growth. We will continue to return capital to shareholders while investing for the long-term health of the business and capitalizing on our

unique ability to help customers navigate the complexities of the hybrid multi-cloud," concluded Mr. Kurian.

We think that NTAP's business remains highly attractive for our long-term-oriented portfolios, given the company's "Data Fabric" strategy, which unifies different cloud environments and provides a consistent data service for customers. Management believes that in addition to geopolitical battles getting resolved, the company's strong relationships with its customers should continue to grow. We think the business model remains attractive, as does the reasonable valuation (with a forward P/E near 14) and EPS of at least $4.30 expected for each of the next three fiscal years. The company has a strong balance sheet and the dividend yield is a generous 3.1%. Our Target Price for NTAP now resides at $79.

Walt Disney (DIS – $144.67) launched its Disney+ streaming service on November 12, which after some initial difficulties with logins, was broadly considered a success. The company reported that it had already accumulated ten million subscribers (including Jason and Chris), sending shares up nearly 5% last week, pushing the YTD gain above 30%.

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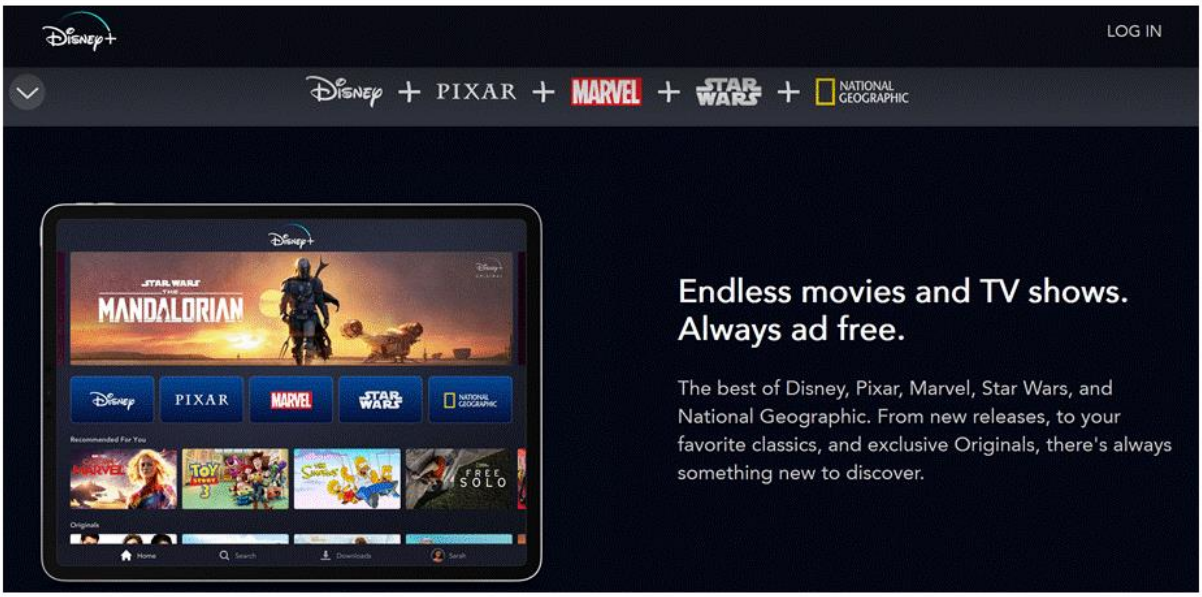
THE PRUDENT SPECULATOR

DIS – Disney+ Off to a Rousing Start



Some subscribers were offered longer-term subscription packages, though the majority are probably month-to-month. As such, DIS is going to need to keep the new content flowing in order to ensure that users don't flee. While we think consumers are likely to have more than one

streaming service, the fight for eyeballs remains fierce. We think it was no coincidence that Netflix announced a deal to create and produce a library of content based on Nickelodeon's intellectual property on the same day as the Disney+ launch.

We think that Disney+ will turn into another cash machine for Disney over time, while the company's content is unparalleled, with the *Frozen II* movie opening this coming week. While streaming competitors like Netflix remain a long way from Value stock territory (Netflix's forward P/E is 58 at present), we continue to think that there is upside in DIS shares, despite their forward P/E ratio above 26. Our Target Price for DIS has been hiked to $164.

Despite what we viewed as a very solid fiscal 2020 Q3, shares of discount mega-retailer **Walmart** (WMT – $118.87) edged down on the week. Adjusted EPS for the period came in at $1.16, versus consensus analyst estimates of $1.09. WMT had sales of $128 billion which trailed the average forecast of $128.7 billion, with revenue negatively impacted by currency headwinds that were essentially twice as much as management was expecting. Walmart had U.S. comp-store sales growth of 3.2%, and on a two-year-stacked basis, comp-store sales increased by 6.6%. U.S. eCommerce sales grew 41%, propelled by online grocery. Net sales at Walmart International were $29.2 billion, an increase of 1.3%, but excluding currency, they tallied $30.2 billion, an improvement of 4.8%. The inclusion of Flipkart and strength in Walmex and China was offset by softness in the U.K.

CEO Doug McMillon commented, "We're pleased with our performance for the quarter. Our associates are responding to change in an inspiring way, and we're proud of them. The Walmart U.S. business saw strong comp sales and expense leverage, and operating income grew for the sixth consecutive quarter. We also celebrated the first anniversary of Flipkart and PhonePe as part of the Walmart family. It was great to see record sales in India during The Big Billion Days event. Looking ahead, we're prepared for a good holiday season. Our integrated offering with stores and eCommerce delivers value and convenience for our customers. Our associates are working hard to ensure we succeed – one customer, one interaction at a time."

Walmart continues to fight a very good fight against Amazon, with its NextDay delivery service from Walmart.com covering a large portion of the U.S. population. Additionally, WMT announced its Delivery Unlimited grocery delivery membership was expanded to 1,400 U.S. stores and the company launched InHome Delivery in three U.S. cities covering more than one million customers.

We know that WMT's competitive landscape will only get more intense versus rivals Amazon, **Target** (TGT – $113.31) and numerous other players. Still, we continue to think that the steps the company has taken over the last few years to transform itself have built a strong foundation for long-term success. We continue to like that WMT generates strong free cash flow and remains committed to returning capital to shareholders via buybacks and dividends. Our Target Price has been increased to $130.

Semiconductor equipment manufacturer **Kulicke & Soffa** (KLIC – $24.15) posted earnings per share of $0.14, versus the $0.10 estimate, in fiscal Q4 2019. KLIC had sales of $139.8 million,

versus the $140.3 million estimate. Shares fell by 4% following the announcement, though the YTD gain remains above 19%.

KLIC CEO Fusen Chen commented, "Since the March quarter, we observed a greater recovery in our overall businesses, improved field utilization rate, increased demand within both capital equipment and APS segment, continued progress within our advanced packaging process, and we recognized revenue of several PIXALUX and micro and miniLED systems. Considering this improvement and the state of our industry, we will include a comparison from the March quarters in addition to sequential comparisons to provide a broader perspective during today's call. In parallel with improving market conditions, we continue to operate very efficiently, generating strong gross margin and executing on near-term cost-saving opportunities without jeopardizing our ongoing development projects. As we look ahead, we remain focused on customer engagement and operational readiness of our new products and are very confident of our competitiveness in this new market."

KLIC has $97.1 million left on its share buyback program and spent $15 million on repurchasing 680,000 thousand shares in fiscal Q4. Over the past five years, KLIC has repurchased 17.2 million shares for $302.8 million. We like that KLIC has its "hands" in many new areas of technology: 5G, automotive, Internet of Things and solid-state memory. We also are pleased that KLIC is working to maintain and expand margins, while investing heavily in R&D. KLIC has a diversified customer base and opportunity to switch to advanced packaging as nodes continue to shrink. Analysts expect EPS to grow from $0.28 in 2019 to more than $2.00 in 2021. In addition, KLIC yields 2.0%. Our Target Price has been bumped up to $28.

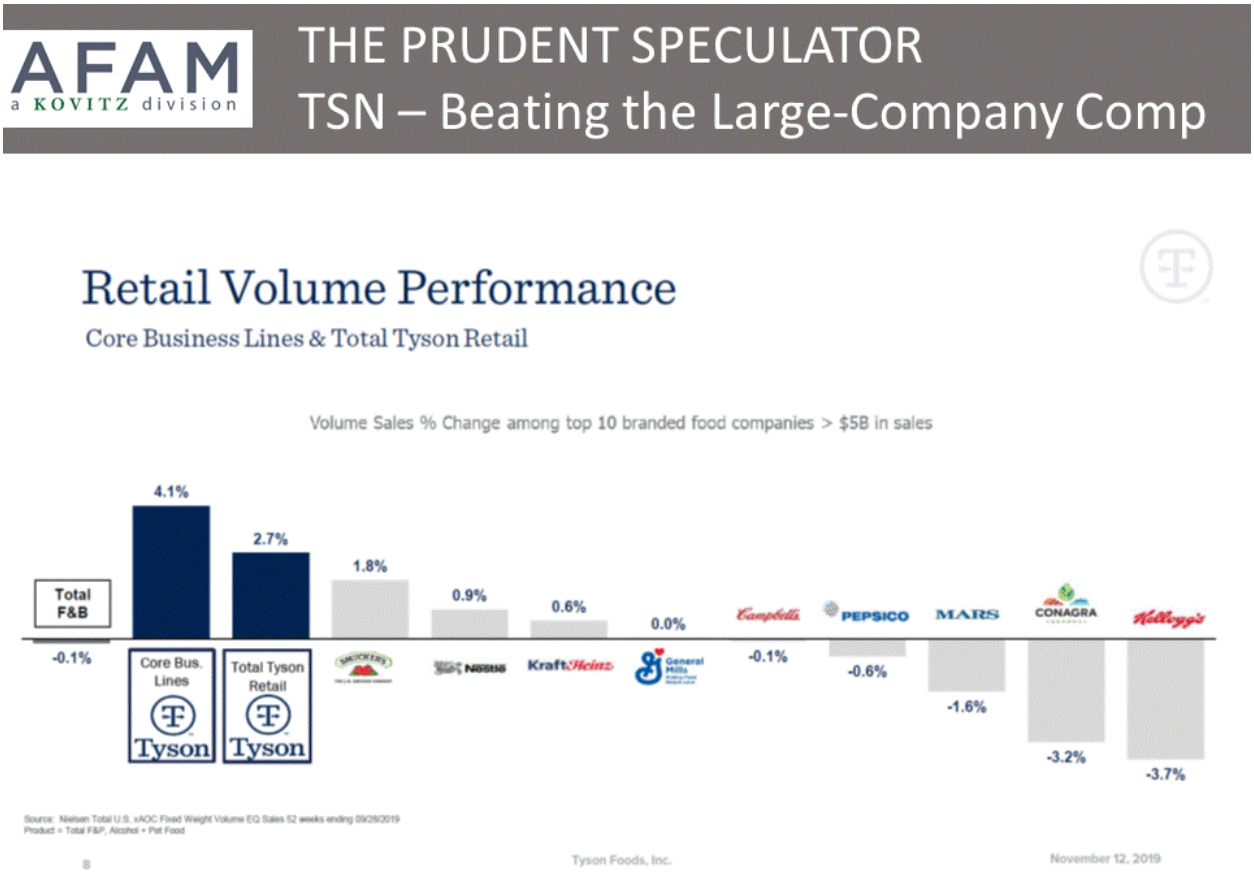
German letter and parcel carrier **Deutsche Post AG** (DPSGY – $37.86) posted earnings per share of $0.50, versus the $0.52 estimate, in fiscal Q3 2019. DPSGY had total revenue of $17.3 billion, versus the $17.0 billion estimate. Shares rose 4.9% last week as the company said it wants to continue to raise prices and expects to benefit if trade-related headwinds wane.

CFO Melanie Kreis commented, "As planned for 2019 we saw acceleration in earnings momentum. We see that our measures have a positive effect on costs and pricing despite uncertainty in the market environment, on that basis we are very optimistic with respect to the guidance for 2019 and the near future." In dollar terms, DPSGY expects adjusted EBIT between $4.42 billion and $4.75 billion in 2019, with free cash flow above $552 million. 2020 EBIT is expected to come in north of $5.52 billion.

We believe that DPSGY (which sports a net trailing yield of 3.3%) can benefit from the Amazon-style online shopping that hasn't taken over Europe yet, as well as its leading position in more profitable European express and parcel mail (most other carriers haven't diversified yet in Europe). While DPSGY is required to get government approval for price hikes, we think that improving parcel mix and a growing market share can boost the stock meantime. The stock now trades for 16 times estimated earnings and for less than 70% of projected sales, while offering our broadly diversified portfolios unique European exposure. Our Target Price for DPSGY is now $53.

Despite reporting fiscal 2019 Q4 results that trailed consensus analyst expectations, shares of **Tyson Foods** (TSN – $90.33) surged more than 9% last week as management said it believed fiscal 2020 would be very strong for its operations. For Q4, the protein producer posted revenue of $10.88 billion (vs forecasts looking for $10.99 billion) and adjusted EPS of $1.21 came in 3% short of projections. The overall miss was driven by a lower-than-forecast quarter in prepared foods due to raw material inflation and distressed inventory sales.

“Fiscal 2019 was highlighted by significant progress in our strategy to grow our business through differentiated capabilities, delivery service and value to our customers, and sustain our company and our world for future generations,” said CEO Noel White. “We expanded our global footprint, launched innovation in our iconic brands and our new alternative protein brand, and prepared for future growth by investing in technology and infrastructure.”



Looking ahead, Mr. White added, “We’re very optimistic about fiscal 2020, and we currently expect to meet or exceed our long-term earnings algorithm of high single-digit adjusted earnings per share growth as we’re well positioned to take advantage of opportunities in the global marketplace.”

The company also said that it expects the havoc caused by the African Swine Fever, which has severely impacted Chinese pork production, to continue to be felt for years to come, which will

likely keep pork prices elevated, benefiting Tyson. Additionally, TSN said that its plant-based nuggets from its Raised & Rooted business, a key competitor to headline grabbing Beyond Meat, is now available in 7,000 stores, almost double the number of stores since the last quarterly report, with an expanded presence at food-service companies. Further, blended Raised & Rooted burgers, made with a mix of Angus beef and plant protein, began shipping this month. "Alternative protein projections remain strong, and we're well-positioned to lead in this growing space," concluded Mr. White.

Besides the potential for higher protein prices and 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 boasts, along with its preparation facilities and logistics, we would think that with the right offerings, Tyson could really pressure the Beyond Meat's of the world. 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. And, increasing protein consumption around the globe, especially in emerging economies, should provide a solid footing for top-line growth. Despite the stock price being up some 70% this year, TSN currently trades at 13.5 times NTM EPS and carries a dividend yield about equal to that of the 10-year U.S. Treasury. Our Target Price for TSN has been boosted to $104.