

December 30, 2019

## EXECUTIVE SUMMARY

Week in Review – Rally Continues, Albeit with a Modest Advance  
 Miracle of Compounding – Smallish Gains Multiply  
 2010’s – Terrific Decade for Stocks Across the Board  
 2000’s – Strong Decade Relatively Speaking for Value  
 Volatility – 33 Corrections Since the Inception of TPS in March 1977  
 Market Outlook – 20 Reasons for Optimism in 2020  
 Stock Updates – AAPL, MSFT, JNJ & AZSEY

## Market Review

Not surprisingly, the week just completed was a quiet one for trading, given that the U.S. stock markets were open only three-and-one-half days. Happily, the equity rally continued, though the Russell 3000 Value index managed to eke out “only” a 0.18% return for Christmas week. We use quotations for the word “only” as via Miracle of Compounding,...



# THE PRUDENT SPECULATOR

## Miracle of Compounding: Picasso’s Rose

A recent auction of masterpieces at Christie’s saw Pablo Picasso’s 1905 painting *Fillette a la corbeille fleurie* sell for \$115 million (\$102 million in net proceeds to the owner). David Rockefeller bought the painting in 1967 for \$1,133,333, meaning the famous art collector enjoyed a nearly 9,000% return on the investment...or 9.22% annualized over 51 years!

### LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.1%	25.8%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.8%	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%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 11.30.19. 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 S&P US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates S&P US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates S&P US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates S&P US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates S&P US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates



LOT 15  
**Pablo Picasso (1881-1973)**  
*Fillette à la corbeille fleurie*  
**Price realised**  
**USD 115,000,000**  
 Estimate On Request ⓘ

**Bought: \$1,133,333 in 1967**  
**Sold: \$102,000,000 Gavel Price in 2018**  
**Buyer Paid \$13 Million Commission!**  
**Rockefeller Gain of 8,983% in 51 Years**  
**Rockefeller Annualized Return = 9.22%**

...a seemingly modest return of 0.18% per week works out to a healthy 9.80% return on an annualized basis. Believe it or not, such a return is a bit higher than the 8.97% and 8.96% per annum returns respectively posted by the Russell 3000 Value and Growth indexes dating back 24 years (the start of our Bloomberg data series) to the end of 1995!

And looking at index returns by decade (the annualized return for the Russell 3000 Value index over the past ten years has been 11.55%), we can see how weekly numbers can multiply over time, illustrating that time in the market trumps market timing,...

**AFAM**  
a KOVITZ division

**THE PRUDENT SPECULATOR**  
**2010s – Massive Gains Across the Board**

Total Returns Matrix 2010s (as of 12.27.19)						
1-Year	3-Year	5-Year	7-Year	10-Year	Symbol	Name
6.56	13.57	11.59	8.88	26.48	LEGATRUU Index	Global Aggregate Bond Index
8.96	13.36	16.54	20.45	44.32	LBUSTRUU Index	U.S. Aggregate Bond Index
26.84	54.15	79.20	159.13	249.93	INDU Index	Dow Jones Industrial Average
27.05	35.60	45.15	99.65	150.97	NYA Index	NYSE Composite Index
30.58	40.32	54.93	140.36	236.06	RUO Index	Russell 2000 Growth Index
23.48	13.16	38.80	98.50	168.08	RUJ Index	<b>Russell 2000 Value Index</b>
27.11	26.13	47.12	119.08	201.47	RUT Index	Russell 2000 Index
37.67	70.59	92.60	197.03	304.48	RAG Index	Russell 3000 Growth Index
27.25	29.11	46.47	123.03	198.83	RAV Index	<b>Russell 3000 Value Index</b>
32.42	48.76	68.48	158.35	249.09	RAY Index	Russell 3000 Index
32.73	65.40	86.27	190.56	294.47	SGX Index	S&P 500 Growth Index
32.95	37.03	55.70	134.79	211.73	SVX Index	<b>S&amp;P 500 Value Index</b>
32.82	51.55	71.82	163.75	253.87	SPX Index	S&P 500 Index
30.84	55.08	66.56	179.97	305.17	SPXPG Index	S&P 500 Pure Growth Index
25.78	27.76	41.65	140.60	259.32	SPXPV Index	S&P 500 Pure Value Index
13.00	37.10	49.42	153.46	243.99	BRK/B Equity	Berkshire Hathaway Inc

As of 12.27.19. Source Kovitz Investment Group using data from Bloomberg

While the second decade of the 21<sup>st</sup> century included two Bear Markets (2011 & 2019), inexpensively priced stocks enjoyed sizable returns for the 10-years ended 12.27.19, even as more richly valued names fared even better.

...with Value stocks really earning their stripes during the 2000s (the average annualized rate of returns for the Russell 3000 Value and Growth indexes were +2.90% and -3.79%, respectively), despite two 50%+ frightening crashes in the S&P 500 index, which actually had a negative total return for the 10 years ended 12.31.09.

Total Returns Matrix 2000s (as of 12.31.09)						
1-Year	3-Year	5-Year	7-Year	10-Year	Symbol	Name
6.93	22.67	24.95	53.61	87.59	LEGATRUU Index	Global Aggregate Bond Index
5.93	19.25	27.44	38.42	84.75	LBUSTRUU Index	U.S. Aggregate Bond Index
22.68	-9.07	10.11	48.71	13.93	INDU Index	Dow Jones Industrial Average
28.95	-14.18	13.48	72.33	25.31	NYA Index	NYSE Composite Index
34.38	-11.64	4.23	77.00	-13.12	RUO Index	Russell 2000 Growth Index
20.50	-22.78	-0.26	77.87	120.41	<b>RUJ Index</b>	<b>Russell 2000 Value Index</b>
27.09	-17.21	2.38	78.33	40.84	RUT Index	Russell 2000 Index
36.95	-6.03	8.12	51.40	-32.06	RAG Index	Russell 3000 Growth Index
19.71	-24.51	-1.37	51.21	33.02	<b>RAV Index</b>	<b>Russell 3000 Value Index</b>
28.29	-15.43	3.80	52.27	-1.94	RAY Index	Russell 3000 Index
31.56	-6.51	7.92	43.91	-25.21	SGX Index	S&P 500 Growth Index
21.15	-24.84	-3.95	46.42	8.51	<b>SVX Index</b>	<b>S&amp;P 500 Value Index</b>
26.45	-15.90	2.15	45.72	-9.08	SPX Index	S&P 500 Index
50.85	-1.88	12.54	84.01	-6.16	SPXPG Index	S&P 500 Pure Growth Index
55.12	-22.13	4.35	76.34	66.39	SPXPV Index	S&P 500 Pure Value Index
2.24	-10.37	11.92	35.62	79.56	BRK/B Equity	Berkshire Hathaway Inc

*As of 12.31.09. Source Kovitz Investment Group using data from Bloomberg*

While the first decade of the 21<sup>st</sup> century included two massive plunges for equities, inexpensively priced stocks still managed to post respectable returns for the 10-years ended 12.31.09, led by Smaller and Purer Value names.

No doubt, the huge advance thus far in 2019 has many questioning whether the equity market gains can continue in 2020. Hopefully, it should come as no surprise when our answer is that nobody can predict short-term market movements with any certainty and we must always be braced for downturns, corrections and even Bear Markets.



# THE PRUDENT SPECULATOR

## 10% Ups and Downs Since TPS Inception

**S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Opposite Direction**

9/12/1978	11/14/1978	-13.55%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	12/24/2018	12/27/2019	37.81%	BULL
<b>Average Drop</b>		<b>-17.88%</b>	<b>BEAR</b>	<b>Average Increase</b>		<b>40.54%</b>	<b>BULL</b>

While the S&P 500 skidded 19.8% during an ugly three-month period a year ago, we suspect that memories of corrections past have faded with stocks now at all-time highs. Believe it or not, there have been 33 pullbacks of 10% or more without an intervening 10% recovery since the launch of *The Prudent Speculator* more than 42 years ago. Happily, the returns in the winning periods have dwarfed the losses.

Indeed, volatility is very much normal, but we continue to believe that the secret to success in stocks is not to get scared out of them. After all, since the launch of *The Prudent Speculator* in March 1977, the S&P 500 has enjoyed a total return of 10,271%, or 11.56% per annum, through Friday, despite all the ups and downs along the way. That said, as the calendar turns to the new year, we remain optimistic about the long-term prospects for our broadly diversified portfolios of what we believe to be undervalued stocks and we offer 20 reasons to support our enthusiasm for the outlook for 2020 and beyond.

### 1. Moderate Economic Growth Likely

The Fed left its GDP growth projections unchanged, with the longer-run forecast still at 1.9% and the estimate for 2020 at 2.0%. The long-run estimate for the Federal Funds rate remained at a very low 2.5%.

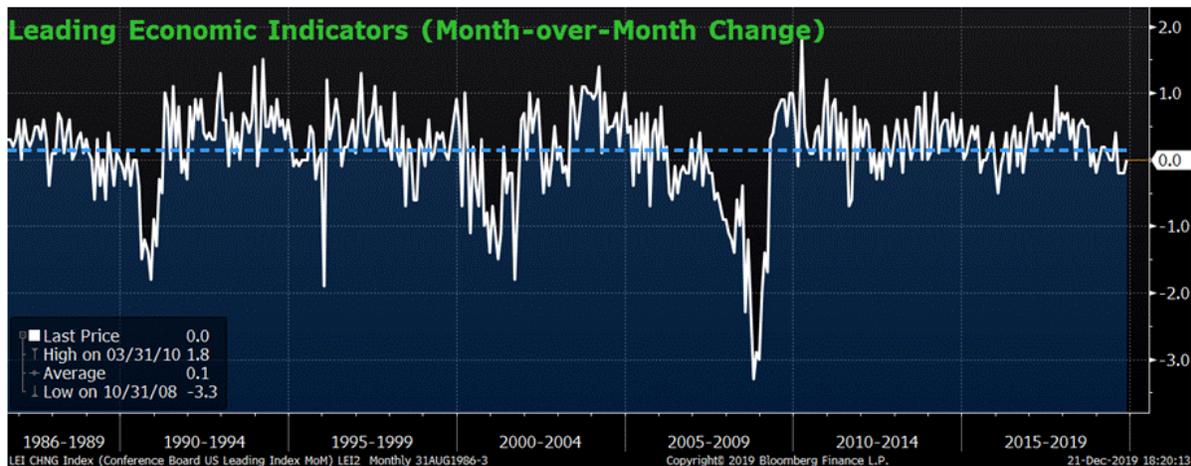
**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2019**  
Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

Variable	Median <sup>1</sup>					Central Tendency <sup>2</sup>					Range <sup>3</sup>				
	2019	2020	2021	2022	Longer run	2019	2020	2021	2022	Longer run	2019	2020	2021	2022	Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9	2.1-2.2	2.0-2.2	1.8-2.0	1.8-2.0	1.8-2.0	2.1-2.3	1.8-2.3	1.7-2.2	1.5-2.2	1.7-2.2
September projection	2.2	2.0	1.9	1.8	1.9	2.1-2.3	1.8-2.1	1.8-2.0	1.7-2.0	1.8-2.0	2.1-2.4	1.7-2.3	1.7-2.1	1.6-2.1	1.7-2.1
Unemployment rate	3.6	3.5	3.6	3.7	4.1	3.5-3.6	3.5-3.7	3.5-3.9	3.5-4.0	3.9-4.3	3.5-3.6	3.3-3.8	3.3-4.0	3.3-4.1	3.5-4.5
September projection	3.7	3.7	3.8	3.9	4.2	3.6-3.7	3.6-3.8	3.6-3.9	3.7-4.0	4.0-4.3	3.5-3.8	3.3-4.0	3.3-4.1	3.3-4.2	3.6-4.5
PCE inflation	1.5	1.9	2.0	2.0	2.0	1.4-1.5	1.8-1.9	2.0-2.1	2.0-2.2	2.0	1.4-1.7	1.7-2.1	1.8-2.3	1.8-2.2	2.0
September projection	1.5	1.9	2.0	2.0	2.0	1.5-1.6	1.8-2.0	2.0	2.0-2.2	2.0	1.4-1.7	1.7-2.1	1.8-2.3	1.8-2.2	2.0
Core PCE inflation <sup>4</sup>	1.6	1.9	2.0	2.0		1.6-1.7	1.9-2.0	2.0-2.1	2.0-2.2		1.6-1.8	1.7-2.1	1.8-2.3	1.8-2.2	
September projection	1.8	1.9	2.0	2.0		1.7-1.8	1.9-2.0	2.0	2.0-2.2		1.6-1.8	1.7-2.1	1.8-2.3	1.8-2.2	
Memor: Projected appropriate policy path															
Federal funds rate	1.6	1.6	1.9	2.1	2.5	1.6	1.6-1.9	1.6-2.1	1.9-2.6	2.4-2.8	1.6	1.6-1.9	1.6-2.4	1.6-2.9	2.0-3.3
September projection	1.9	1.9	2.1	2.4	2.5	1.6-2.1	1.6-2.1	1.6-2.4	1.9-2.6	2.5-2.8	1.6-2.1	1.6-2.4	1.6-2.6	1.6-2.9	2.0-3.3

Source: Federal Reserve, December 11, 2019

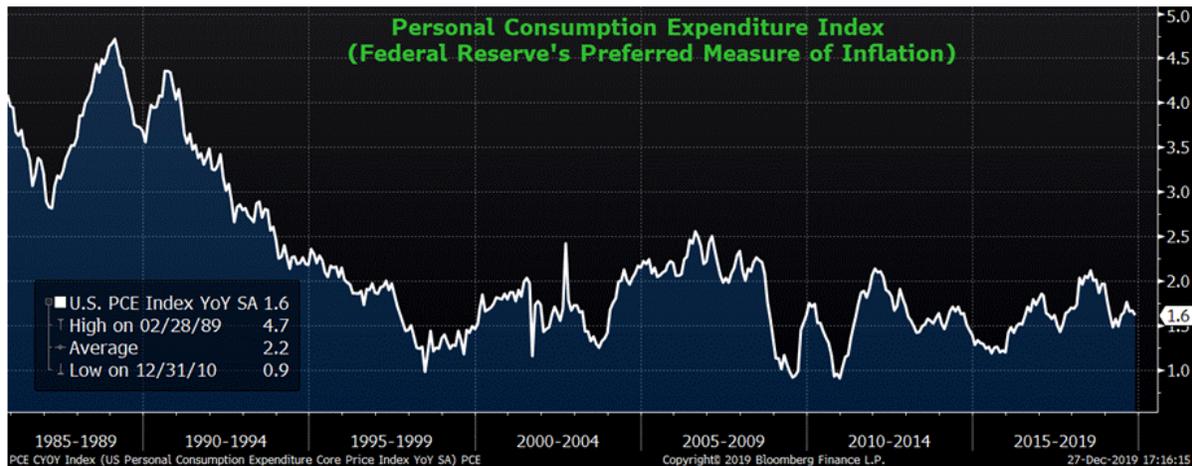
## 2. Economic Data Supporting 2% GDP Growth Estimates

The forward-looking index of Leading Economic Indicators was flat on a month-over-month basis in November, while the October reading was revised down to a 0.2% decline. Strength in residential construction, financial markets and consumers' outlook offset weakness in manufacturing and labor markets, said the Conference Board, which now looks for GDP growth to stabilize around 2% in 2020.



### 3. Inflation Remains Modest

The Consumer Price Index for November did come in at a surprising 2.1% year-over-year gain, the highest level in 12 months, but the latest read on the “core” Personal Consumption Expenditure (PCE), the Federal Reserve’s preferred measure of inflation, was just 1.6%, below the desired 2.0% level, meaning that there is little reason for Jerome H. Powell & Co. to consider raising the Federal Funds rate target.

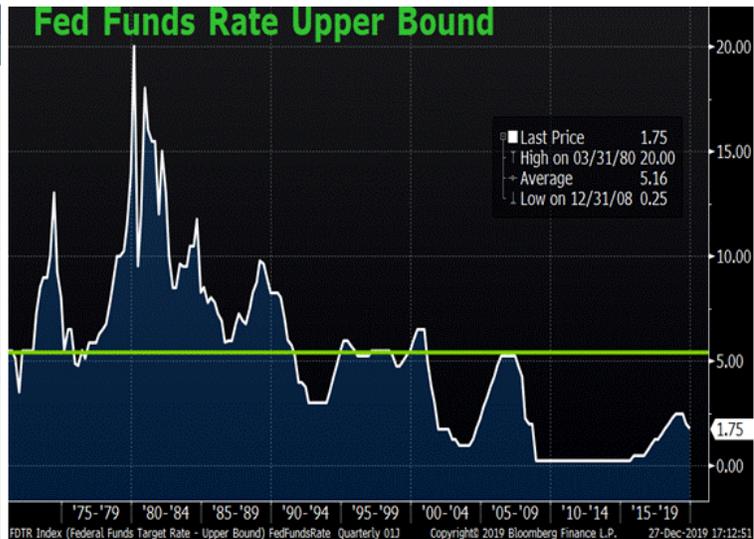


**4. Federal Reserve Should Remain Friendly**

While slowing economic growth has led to investor consternation, the Federal Reserve remains highly accommodative with the upper bound for the Fed Funds rate having been cut to 1.75% and even the highest FOMC Participant 2022 target projection now at only 2.875%.

FOMC Participants' Fed Funds Rate Target Level					
Number with each projection					
Midpoint of Target Range	2019	2020	2021	2022	Longer Run
3.375					
3.250					1
3.125					
3.000					1
2.875				2	
2.750					2
2.625				2	
2.500					8
2.375			3	4	1
2.250					2
2.125			5	3	
2.000					1
1.875		4	4	5	
1.750					
1.625	17	13	5	1	
1.500					

Source: Federal Reserve, December 11, 2019



Source: Bloomberg

## 5. Interest Rates Likely to Remain Extraordinarily Low

# THE PRUDENT SPECULATOR

## Low Interest Rates Likely to Stay



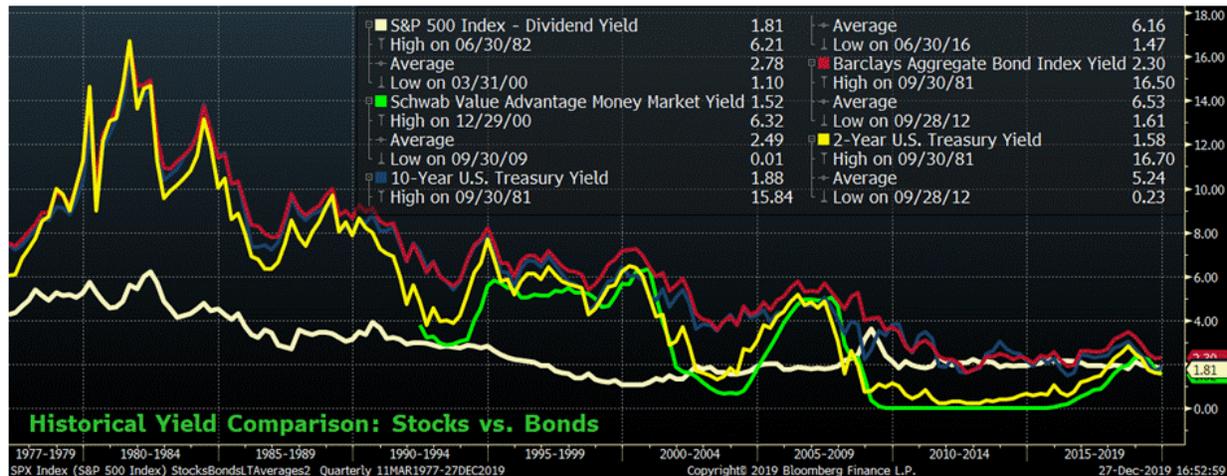
Even as the amount of negative-yielding debt globally has dipped below \$12 trillion, down from a recent high of \$17 trillion, the futures are signaling a 1.8% chance of a boost in the current 1.5% to 1.75% target for the Federal Funds rate over the next year, while the odds are 38.0% for a reduction and 18.5% for two or more cuts.

### 6. Yields on Stocks Very Competitive with Other Investment Options

# THE PRUDENT SPECULATOR

## 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 (1.81%) 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.



### 7. Dividend Payouts Likely to Continue to Rise



## 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 12.26.19)	355	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.)	\$62.95
2019 (Est.)	\$59.02
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 12.29.19*

### 8. Corporate Buybacks Expected to Remain Elevated

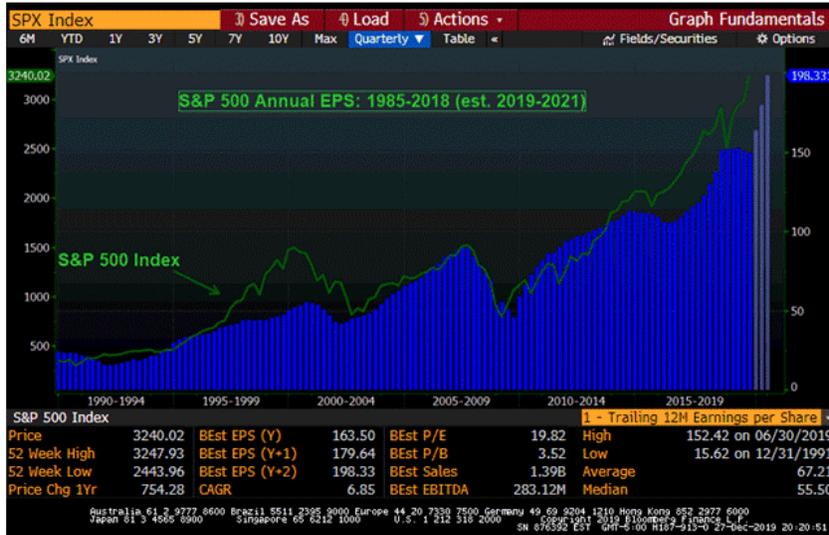
While the market may not always show enthusiasm for **our stocks**, companies generally have a lot of free cash flow available to repurchase shares, often at discounted prices, and still pay out generous dividends.

S&P 500			Q3 2019	12-Months	12-Months	5-Year	10-Year	Indicated
20 LARGEST Q3 2019 BUYBACKS			Buybacks	Sep, '19	Sep, '18	Buybacks	Buybacks	Dividend
Company	Ticker	Sector	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million	\$ Million
Apple	AAPL	Information Technology	\$17,635	\$69,714	\$75,265	\$247,797	\$320,049	\$14,808
Bank of America	BAC	Financials	\$7,626	\$25,627	\$19,732	\$60,790	\$65,685	\$7,447
Wells Fargo	WFC	Financials	\$7,459	\$24,757	\$16,518	\$68,966	\$87,356	\$9,877
JPMorgan Chase	JPM	Financials	\$6,949	\$23,178	\$18,863	\$68,851	\$90,405	\$11,511
Alphabet	GOOGL	Communication Services	\$5,696	\$14,948	\$8,526	\$31,692	\$32,610	\$0
Oracle	ORCL	Information Technology	\$5,519	\$31,816	\$21,366	\$74,484	\$105,087	\$4,852
Citigroup	C	Financials	\$4,978	\$12,855	\$15,800	\$53,997	\$57,889	\$4,608
Microsoft	MSFT	Information Technology	\$4,912	\$20,711	\$11,895	\$74,488	\$116,365	\$15,576
Intel	INTC	Information Technology	\$4,521	\$11,874	\$8,464	\$34,421	\$65,163	\$5,582
LyondellBasell	LYB	Materials	\$3,240	\$4,805	\$801	\$15,507	\$21,803	\$1,829
Procter & Gamble	PG	Consumer Staples	\$3,000	\$6,751	\$5,754	\$24,090	\$53,999	\$7,458
Charter Communications	CHTR	Communication Services	\$2,767	\$5,753	\$7,181	\$22,283	\$23,066	\$0
Starbucks	SBUX	Consumer Discretionary	\$2,255	\$10,334	\$7,196	\$23,269	\$26,278	\$1,963
Visa	V	Information Technology	\$2,132	\$8,718	\$7,286	\$33,238	\$46,605	\$2,072
Mastercard	MA	Information Technology	\$1,803	\$6,553	\$5,156	\$21,721	\$30,291	\$1,803
DaVita	DVA	Health Care	\$1,764	\$1,837	\$1,643	\$4,973	\$5,876	\$0
Facebook	FB	Communication Services	\$1,739	\$8,661	\$13,886	\$26,001	\$29,756	\$0
Johnson & Johnson	JNJ	Health Care	\$1,628	\$10,128	\$2,875	\$35,636	\$60,511	\$10,029
Morgan Stanley	MS	Financials	\$1,538	\$5,633	\$5,664	\$21,297	\$24,020	\$3,045
McDonald's	MCD	Consumer Discretionary	\$1,468	\$4,458	\$5,029	\$31,806	\$44,772	\$3,797
<b>Top 20</b>			<b>\$88,629</b>	<b>\$309,111</b>	<b>\$258,900</b>	<b>\$975,307</b>	<b>\$1,307,586</b>	<b>\$106,257</b>
<b>S&amp;P 500</b>			<b>\$175,886</b>	<b>\$770,135</b>	<b>\$720,397</b>	<b>\$3,114,135</b>	<b>\$5,160,989</b>	<b>\$546,855</b>
<b>Top 20 % of S&amp;P 500</b>			<b>50.39%</b>	<b>40.14%</b>	<b>35.94%</b>	<b>31.32%</b>	<b>25.34%</b>	<b>19.43%</b>

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

## 9. Earnings Likely to Continue to Grow

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



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
<b>ESTIMATES</b>		
12/31/2020	\$46.13	\$175.65
9/30/2020	\$45.75	\$169.72
6/30/2020	\$43.46	\$163.78
3/31/2020	\$40.31	\$160.46
12/31/2019	\$40.20	\$158.14
9/30/2019	\$39.81	\$152.97
<b>ACTUAL</b>		
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 12.27.19

**10. Supposedly Disconcerting ISM PMI Data Actually Favorable for Equities**

Returns Following ISM PMI Readings of <= 48.1			
Statistic	Fama French Value	Fama French Growth	S&P 500
<b>One-Year</b>			
Average	26.5%	22.8%	20.1%
Median	26.6%	23.6%	21.1%
Max	84.6%	83.8%	61.0%
Min	-24.5%	-28.0%	-23.6%
# Positive	157	159	159
# Negative	26	24	24
<b>Three-Year Annualized</b>			
Average	20.3%	13.9%	15.4%
Median	21.7%	15.4%	15.4%
Max	38.9%	28.4%	32.7%
Min	-6.6%	-7.2%	-4.6%
# Positive	182	171	172
# Negative	1	12	11
<b>Five-Year Annualized</b>			
Average	18.6%	13.0%	14.6%
Median	18.8%	13.2%	15.1%
Max	32.5%	25.7%	29.7%
Min	3.2%	-6.3%	-0.6%
# Positive	182	176	181
# Negative	0	6	1

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

The equity markets again sold off following a sub-par Manufacturing Index (aka PMI) tally from the Institute for Supply Management for November. With a reading of 48.1, 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 183 times that the PMI has tallied 48.1 or lower shows that, on average, one-, three- and five-year returns (182 periods) have been fantastic, with Value leading the way.

## 11. Yield-Curve Inversion in 2019 a Value Stock Buy Signal

<b>Inverted Month-End 2/10 Yield Curve and Subsequent Equity</b>						
Statistic	Fama French Value	Fama French Growth	Russell 3000 Value	Russell 3000 Growth	S&P 500	DJIA
<b>One-Year</b>						
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
<b>Three-Year Annualized</b>						
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
<b>Five-Year Annualized</b>						
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

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 shouted about the supposed dangers of a yield-curve inversion, even as central bank buying of government debt had no doubt pushed longer-term interest rates lower, we think market history helped 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.

**12. Even if a Recession Hits, Evidence Favors Staying in Value Stocks**



# THE PRUDENT SPECULATOR

## We Invest in Stocks and Not in Economies

As the saying goes, economists (and the stock market) have predicted nine of the last five recessions, meaning that no one has a crystal ball to know in advance when two or more quarters of negative economic growth (i.e. a recession) might occur. Of course, the historical evidence pre- and post-recession shows that long-term-oriented investors should (on average) stay invested (in Value, quite clearly) no matter what.

U.S. Recession Commencement (per NBER) and Equity Returns															
Fama French Value, S&P 500 & Fama French Growth															
Year Prior	Year Prior	Year Prior	Recession Start	1 Year	1 Year	1 Year	3 Year	3 Year	3 Year	5 Year	5 Year	5 Year	10 Year	10 Year	10 Year
FF Value TR	S&P 500 TR	FF Growth TR	Date	FF Value TR	S&P 500 TR	FF Growth TR	FF Value TR	S&P 500 TR	FF Growth TR	FF Value TR	S&P 500 TR	FF Growth TR	FF Value TR	S&P 500 TR	FF Growth TR
30.8%	51.9%	28.8%	August 1929	-32.0%	-32.6%	-40.1%	-64.9%	-73.5%	-71.7%	-61.4%	-71.1%	-42.1%	-47.7%	-58.0%	-25.3%
42.6%	18.2%	19.9%	May 1937	-55.8%	-39.3%	-45.3%	-55.1%	-33.2%	-26.4%	-44.3%	-32.5%	-29.8%	142.7%	53.7%	71.9%
54.4%	26.3%	34.6%	February 1945	42.2%	26.0%	37.1%	28.5%	12.0%	8.0%	75.7%	64.3%	50.9%	468.6%	379.2%	265.3%
4.6%	4.0%	-4.5%	November 1948	12.4%	19.2%	20.9%	108.9%	101.8%	89.0%	130.7%	145.2%	116.6%	584.7%	542.0%	438.4%
4.7%	3.1%	4.1%	July 1953	25.6%	31.9%	28.1%	118.0%	128.9%	98.0%	138.2%	136.5%	114.4%	381.9%	308.5%	252.6%
-0.4%	-1.2%	0.0%	August 1957	16.4%	10.0%	13.7%	55.0%	40.2%	58.3%	77.9%	55.1%	62.2%	418.4%	188.9%	238.1%
-6.4%	-2.4%	-1.5%	April 1960	29.0%	24.2%	25.0%	51.5%	41.7%	23.4%	131.0%	92.4%	60.0%	268.9%	107.7%	107.6%
-20.9%	-8.4%	-11.8%	December 1969	8.7%	3.9%	-13.7%	40.3%	41.4%	20.1%	-7.3%	-11.3%	-45.3%	267.9%	77.0%	59.6%
-19.4%	-15.2%	-32.5%	November 1973	-14.8%	-23.8%	-28.2%	77.1%	20.8%	19.5%	142.4%	23.7%	46.1%	719.9%	182.3%	275.6%
31.3%	20.6%	32.6%	January 1980	12.3%	19.5%	29.1%	80.4%	49.5%	58.0%	183.5%	102.4%	81.7%	480.7%	342.4%	194.7%
22.9%	13.0%	22.8%	July 1981	-0.8%	-13.3%	-21.7%	78.6%	34.0%	11.4%	217.1%	127.9%	75.1%	408.6%	343.4%	180.9%
-6.9%	6.5%	4.8%	July 1990	9.9%	12.7%	14.5%	76.0%	38.2%	34.1%	129.3%	83.2%	78.0%	424.9%	407.2%	320.9%
17.0%	-21.7%	-34.0%	March 2001	14.6%	0.2%	3.9%	33.8%	1.9%	11.7%	83.4%	21.4%	33.8%	96.0%	38.3%	64.8%
-5.7%	9.0%	9.1%	December 2007	-36.2%	-40.4%	-37.0%	-6.6%	-13.0%	3.9%	5.7%	5.3%	18.5%	119.5%	117.4%	154.6%
<b>10.6%</b>	<b>7.4%</b>	<b>5.2%</b>	<b>Averages</b>	<b>2.3%</b>	<b>-0.1%</b>	<b>-1.0%</b>	<b>44.4%</b>	<b>27.9%</b>	<b>24.1%</b>	<b>85.8%</b>	<b>53.0%</b>	<b>44.3%</b>	<b>338.2%</b>	<b>216.4%</b>	<b>185.7%</b>

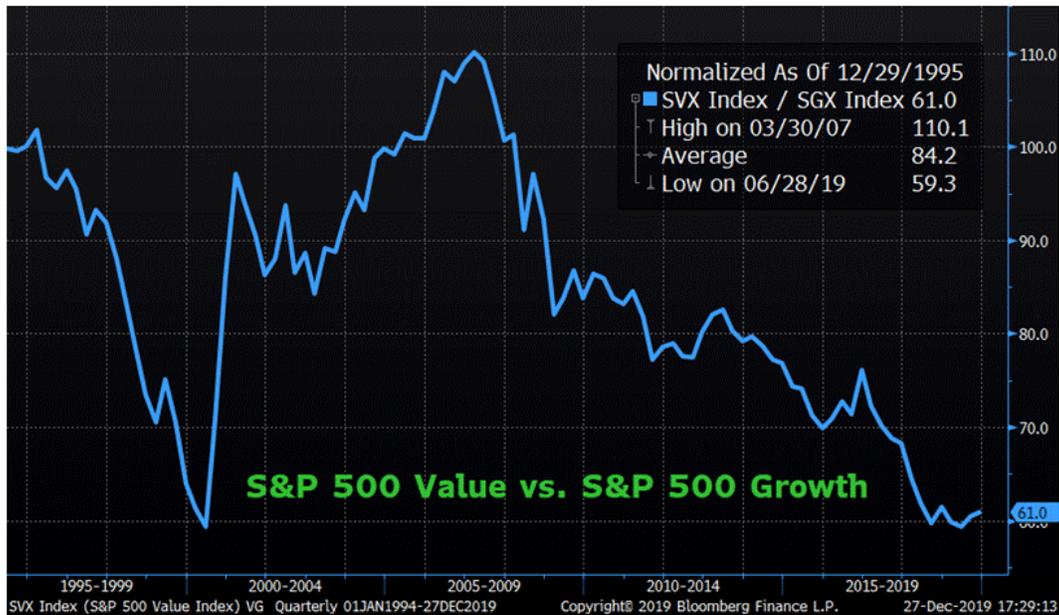
Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

### 13. Value Stocks Presently Very Attractive Relative to Growth Stocks

# THE PRUDENT SPECULATOR

## Value “Buy” Signal on Par with Mar 2000

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

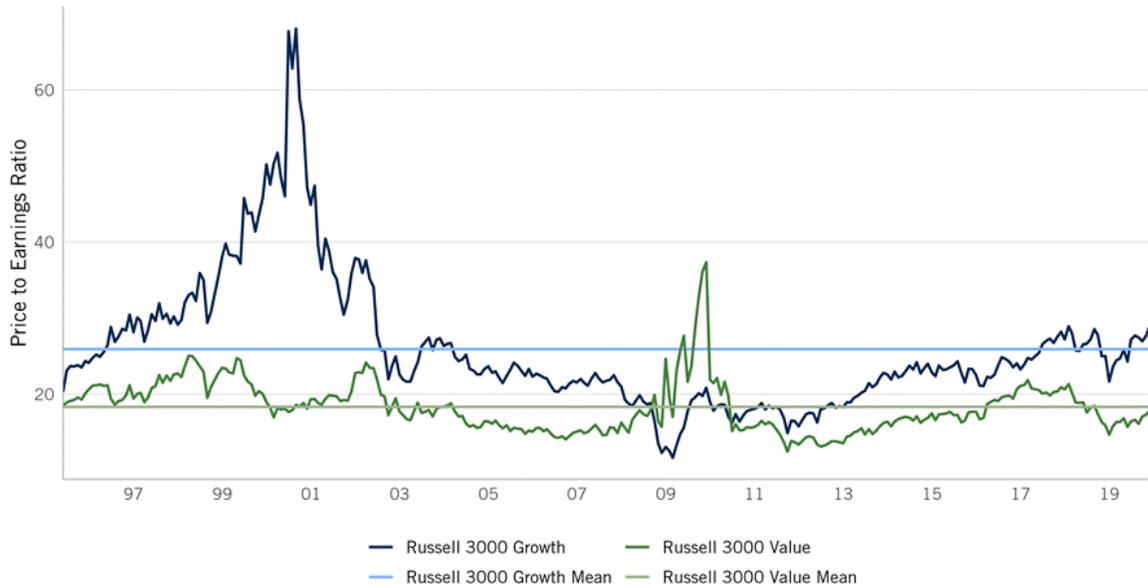


### 14. Value Inexpensive Relative to Growth and Historical Median

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

### 15. Valuations of our Portfolios Very Compelling



# 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	14.7	12.9	1.2	2.1	2.8
Select Value	15.4	13.5	1.3	2.2	2.5
Select Dividend	15.4	13.5	1.0	2.2	3.1
Select Focused Dividend	14.5	13.0	1.0	2.3	3.1
Select Focused Value	15.5	14.2	1.5	2.5	2.4
Select SMID Dividend	14.1	12.5	0.6	1.6	2.9
Russell 3000	23.0	20.9	2.1	3.4	1.8
Russell 3000 Growth	30.1	26.7	3.3	8.1	1.1
Russell 3000 Value	18.4	16.9	1.6	2.1	2.4
Russell 1000	22.4	20.3	2.3	3.5	1.8
Russell 1000 Growth	29.1	25.7	3.6	8.6	1.1
Russell 1000 Value	18.0	16.6	1.7	2.2	2.5
S&P 500 Index	21.7	19.8	2.4	3.6	1.8
S&P 500 Growth Index	27.5	24.8	4.1	7.0	1.2
S&P 500 Value Index	17.5	16.2	1.6	2.4	2.5
S&P 500 Pure Value Index	11.5	11.2	0.6	1.2	2.9

As of 12.27.19. 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.

## 16. S&P 500 Still Very Much Reasonably Priced Given Low Interest Rates

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 4.62%.



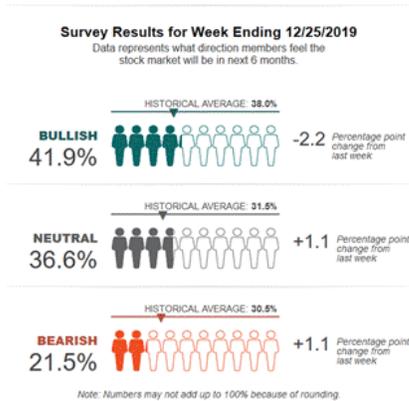
**17. Investor Sentiment Hardly Exuberant Despite All-Time Highs**

The latest Sentiment Survey of AAI members showed a dip in optimism to 41.9%, near the historical average for Bullishness.

Incredibly, even with the equity market averages hitting record highs, investors have been voting with their feet, heavily selling stocks and buying bonds in recent ICI calcs of exchange traded and mutual fund flows.

### AAI Investor Sentiment Survey

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



The AAI 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.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance					
Millions of dollars					
Week Ended	12/18/2019	12/11/2019	12/4/2019	11/26/2019	11/20/2019
<b>Total Equity</b>	<b>1,265</b>	<b>-10,906</b>	<b>-1,054</b>	<b>-23</b>	<b>-5,632</b>
Domestic	-609	-9,628	-3,256	609	-7,048
World	1,874	-1,278	2,202	-631	1,416
<b>Hybrid</b>	<b>-1,728</b>	<b>-1,988</b>	<b>-703</b>	<b>-748</b>	<b>-345</b>
<b>Total Bond</b>	<b>10,294</b>	<b>12,483</b>	<b>12,035</b>	<b>8,665</b>	<b>13,262</b>
Taxable	7,909	10,192	9,763	5,997	10,525
Municipal	2,385	2,291	2,273	2,668	2,737
<b>Commodities</b>	<b>17</b>	<b>-445</b>	<b>-446</b>	<b>243</b>	<b>-355</b>
<b>Total</b>	<b>9,848</b>	<b>-855</b>	<b>9,832</b>	<b>8,137</b>	<b>6,929</b>

Source: Investment Company Institute

## 18. Mutual and Exchange Traded Fund Holders Bailing on Stocks and Piling into Bonds



# 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 5 years. Bonds have been the major beneficiary of the exodus.

Investment Company Institute											
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows											
<i>Millions, U.S. dollars</i>											
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	-12,518	29,139	Oct-18	-9,657	-27,700
Feb-15	5,547	30,321	May-16	-14,252	16,925	Aug-17	-22,771	25,078	Nov-18	2,783	-7,459
Mar-15	-1,494	4,905	Jun-16	-15,530	16,623	Sep-17	-9,775	33,440	Dec-18	-28,953	-49,512
Apr-15	-34,681	11,027	Jul-16	292	33,575	Oct-17	3,166	36,110	Jan-19	-21,195	29,308
May-15	-17,287	5,010	Aug-16	-9,956	30,859	Nov-17	-4,417	19,788	Feb-19	3,632	45,138
Jun-15	-7,023	6,324	Sep-16	-5,713	24,669	Dec-17	-9,054	19,491	Mar-19	-3,654	38,412
Jul-15	-14,864	-1,255	Oct-16	-23,109	13,855	Jan-18	10,778	46,287	Apr-19	-5,307	40,565
Aug-15	-18,569	-18,122	Nov-16	22,993	-13,289	Feb-18	-41,444	2,706	May-19	-24,652	21,332
Sep-15	-4,725	-10,849	Dec-16	18,859	-4,142	Mar-18	-22,152	14,148	Jun-19	-11,997	39,771
Oct-15	-807	15,397	Jan-17	5,097	31,037	Apr-18	-7,403	24,176	Jul-19	-7,889	44,811
Nov-15	654	-5,573	Feb-17	17,613	33,991	May-18	10,068	11,749	Aug-19	-29,909	22,304
Dec-15	476	-25,043	Mar-17	9,411	36,562	Jun-18	-21,004	16,995	Sep-19	-4,650	38,482
Jan-16	-27,222	7,686	Apr-17	-8,266	22,064	Jul-18	1,007	22,495	Oct-19	-24,556	43,209
Feb-16	-9,108	11,915	May-17	-10,725	33,070	Aug-18	-6,660	17,219	Nov-19	-17,499	41,203
Mar-16	7,711	29,296	Jun-17	-7,944	29,372	Sep-18	886	18,526	<b>Totals:</b>	<b>-484,493</b>	<b>1,063,070</b>

### 19. Presidential Cycle Favors Value Stocks and Dividend Payers

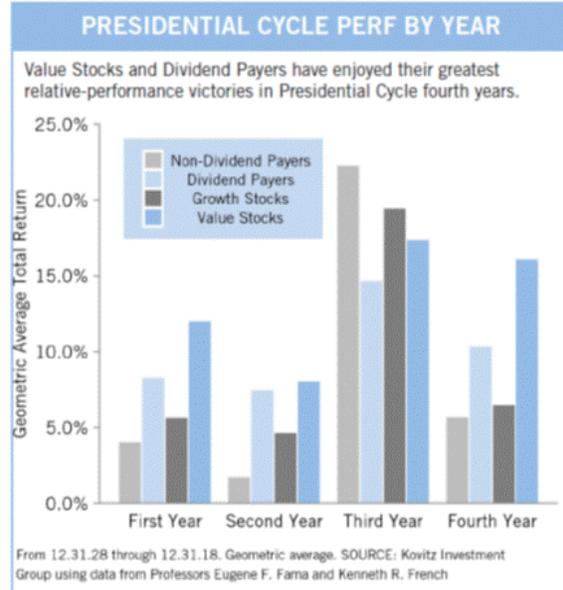
# THE PRUDENT SPECULATOR

## Presidential Cycle Favors Value/Dividends

Value Stocks have crushed Growth by 10.3 percentage points in the fourth-year performance derby, while Dividend Payers, on average, have outperformed Non-Dividend Payers by nearly five full percentage points.

PRESIDENTIAL FOURTH YEAR PERFORMANCE						
While all stocks were crushed in the Bush W. second term, Value has enjoyed double-digit returns in 13 of the past 14 fourth years.						
President	Year	Value	Growth	Divs	No Divs	S&P
Hoover	1932	2.9%	-7.2%	-5.2%	0.0%	-8.2%
Roosevelt	1936	65.0%	29.8%	28.7%	53.5%	33.9%
Roosevelt	1940	-7.2%	-6.5%	-5.1%	-12.2%	-9.8%
Roosevelt	1944	44.0%	27.9%	23.6%	41.8%	19.8%
Truman	1948	1.1%	-2.5%	2.5%	-7.6%	5.5%
Truman	1952	14.3%	10.4%	14.5%	9.9%	18.4%
Eisenhower	1956	5.4%	6.6%	8.5%	0.5%	6.6%
Eisenhower	1960	-7.2%	-2.5%	2.0%	-12.5%	0.5%
Johnson	1964	21.6%	11.5%	18.0%	3.6%	16.5%
Johnson	1968	36.4%	17.5%	14.3%	20.7%	11.1%
Nixon	1972	12.7%	10.5%	16.8%	2.8%	19.0%
Ford	1976	52.3%	27.6%	29.5%	38.1%	23.8%
Carter	1980	19.3%	44.4%	30.9%	62.7%	32.4%
Reagan	1984	12.1%	-7.5%	5.2%	-18.5%	6.3%
Reagan	1988	28.6%	13.8%	17.9%	14.2%	16.8%
Bush H.	1992	29.7%	5.7%	9.5%	11.1%	7.7%
Clinton	1996	22.7%	16.6%	23.5%	16.3%	23.1%
Clinton	2000	21.8%	-17.8%	12.8%	-30.1%	-9.1%
Bush W.	2004	20.1%	11.9%	11.6%	11.5%	10.9%
Bush W.	2008	-36.2%	-37.0%	-34.8%	-42.6%	-37.0%
Obama	2012	24.6%	15.0%	15.7%	20.3%	16.0%
Obama	2016	31.2%	8.6%	14.2%	4.7%	12.0%
<b>Average</b>		<b>16.8%</b>	<b>6.5%</b>	<b>10.5%</b>	<b>5.6%</b>	<b>8.6%</b>

SOURCE: Kovitz Investment Group using data from Ibbotson Associates and Professors Eugene F. Fama and Kenneth R. French



### 20. Current Bull Market is Young as it Just Celebrated its One-Year Anniversary

# THE PRUDENT SPECULATOR

## Bull Market is Young: Bear Market '18

December 24, 2018



“The S&P 500 entered Wednesday's session in a bear market, down 20.06 percent from an all-time intraday high set on Sept. 21 amid ongoing turmoil in Washington. Stocks entered bear market territory on Monday after the worst Christmas Eve sell-off in history.” – CNBC.com



Obviously, anything can happen in the equity markets and we realize that geopolitical events are always a wild card, so we provide our usual reminder that the longer stocks are held the less the likelihood of a poor outcome!

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 10-year U.S. Treasury today, with its 1.89% current yield, given the improving odds as holding periods lengthen that stocks will beat that return.

**PATIENCE IS VIRTUOUS**

	VALUE STOCKS			DIVIDEND PAYERS		
	Count >1.89%	Count <=1.89%	Percent >1.89%	Count >1.89%	Count <=1.89%	Percent >1.89%
1 Month	689	420	62.1%	684	425	61.7%
3 Months	730	377	65.9%	735	372	66.4%
6 Months	764	340	69.2%	774	330	70.1%
1 Year	783	315	71.3%	802	296	73.0%
2 Year	877	209	80.8%	897	189	82.6%
3 Year	923	151	85.9%	889	185	82.8%
5 Year	917	133	87.3%	923	127	87.9%
7 Year	974	52	94.9%	957	69	93.3%
10 Year	953	37	96.3%	939	51	94.8%
15 Year	924	6	99.4%	910	20	97.8%
20 Year	870	0	100.0%	870	0	100.0%

From 07.31.27 through 11.30.19. 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: Kowitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French

Happy New Year to all our readers and best wishes for a healthy, happy, prosperous and tranquil 2020!

**Stock Updates**

Given the Holidays, there is very little in the way of company news to discuss this week, but we can report that we are not yet ready to part with a trio of stocks, having hiked our Target Prices for **Apple** (AAPL – \$289.80) to \$294; **Microsoft** (MSFT – \$158.96) to \$164 and **Johnson & Johnson** (JNJ – \$145.75) to \$149. While we continue to find the long-term prospects for each as favorable and we do not presently have other names into which we are ready to swap, we also note that each is a major component of the Russell 3000 index (AAPL: 4.04%; MSFT: 3.76%; JNJ: 1.22%), even as they differ mightily in their impact on the Russell 3000 Growth and Value indexes.

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://theprudentpeculator.com/dashboard/>.

Shareholders of **Allianz SE** (AZSEY – \$24.52) likely recently received a communication related to the insurance and financial services giant’s “Sponsored” American Depository Receipts

(ADR). That notice indicated that the existing deposit agreement between the sponsor, JPMorgan, and Allianz will terminate on January 3, 2020, resulting in the shares being delisted. The document suggested that if an “Unsponsored” ADR program was not established, our existing AZSEY shares would be converted into Allianz ordinary shares on February 3, 2020, with holders charged a \$0.05 per ADR cancellation fee.

Happily, JPMorgan announced on December 20 that it will maintain the shares via an “Unsponsored” American Depositary Receipt program effective January 6, 2020. It is our understanding that all AZSEY ADR shares will be converted to the new security, though the ticker symbol has not been decided as of this writing per the information provided here (<https://api.markitdigital.com/jpmadr-public/v1/cms/document?cmsId=247feb9499684d55aa976b31e1a610b1>).

At this point, we will patiently hold what we have and await the new ADR conversion. Our Target Price for AZSEY remains \$31.