Market Commentary Monday, December 2, 2019

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EXECUTIVE SUMMARY

Thanksgiving Week – Rally Resumed, Despite Friday's Downturn
Value vs. Growth – Inexpensive Stocks Have Had a Nice Three Months
TPS 638 – December edition of *The Prudent Speculator* Coming by Wednesday AM
Econ Data – More Good than Bad News
Target Prices – Updated Listing to be Posted to theprudentspeculator.com
Stock Updates – TNP & DE

Market Review

We hope all our readers had a safe and happy Thanksgiving. Though it was a lousy end to the four-day trading period, with stocks retreating during the holiday-shortened session on Friday on renewed concerns about the trade negotiations with China, Thanksgiving Week was a good one for the equity markets. True, Growth topped Value, with the S&P 500 Growth index gaining 1.35%, versus a 0.68% advance for the S&P 500 Value index, but we like how the latter and the other Value indexes have performed over the last three months,…

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THE PRUDENT SPECULATOR
Favorable Returns Growth AND Value

While many think the extraordinarily low interest rate environment and the trend toward passive investing have been the main catalysts for Growth stocks to perform very well over the last decade, we note that the returns on the more inexpensive areas of the equity market have not exactly been chopped liver…and Value has come to life of late!

Total Returns Matrix

Since 8.31.19	Year to Date	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	Symbol	Name
-1.11	6.22	8.17	11.76	10.66	8.82	22.55	61.14	137.99	LEGATRUU Index	Global Aggregate Bond Index
-0.28	8.79	10.85	12.52	16.39	20.60	42.39	85.84	166.36	LBUSTRUU Index	U.S. Aggregate Bond Index
6.87	23.05	13.43	57.40	77.73	155.34	249.66	291.75	313.47	INDU Index	Dow Jones Industrial Average
7.99	25.56	11.57	39.60	57.11	136.87	259.82	257.34	234.32	RUO Index	Russell 2000 Growth Index
10.19	18.23	4.39	15.73	39.09	97.82	186.07	169.07	500.48	**RUJ Index**	**Russell 2000 Value Index**
9.07	21.97	8.05	27.33	48.31	117.18	222.28	212.69	362.63	RUT Index	Russell 2000 Index
7.43	31.92	21.42	67.78	87.43	185.44	308.75	340.95	190.82	RAG Index	Russell 3000 Growth Index
8.39	22.81	11.56	30.99	45.31	120.66	202.77	199.10	294.61	**RAV Index**	**Russell 3000 Value Index**
7.89	27.34	16.42	48.62	65.51	151.95	253.21	266.47	252.76	RAY Index	Russell 3000 Index
5.54	27.40	17.55	63.10	81.31	178.71	294.25	328.37	202.34	SGX Index	S&P 500 Growth Index
10.59	27.94	16.59	38.37	53.58	131.55	212.38	201.78	243.06	**SVX Index**	**S&P 500 Value Index**
7.86	27.63	17.08	51.22	68.28	156.23	254.02	263.95	228.60	SPX Index	S&P 500 Index
5.20	25.93	15.18	51.48	62.29	172.93	318.94	364.90	315.96	SPXPG Index	S&P 500 Pure Growth Index
11.12	22.25	7.58	29.56	39.95	142.06	276.38	279.29	520.09	SPXPV Index	S&P 500 Pure Value Index
8.30	7.89	1.19	39.71	48.16	150.43	225.69	293.53	487.78	BRK/B Equity	Berkshire Hathaway Inc

As of 11.29.19. Source Kovitz Investment Group using data from Bloomberg

…especially considering that inexpensive stocks are now about as attractive relative to their more richly priced peers as they have been in nearly two decades.

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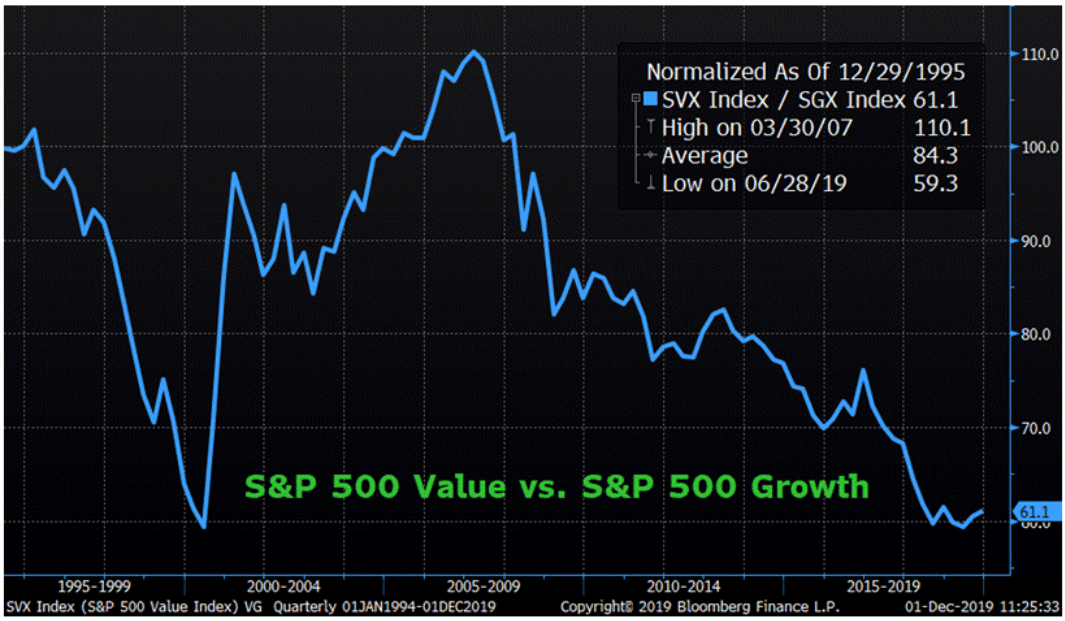
THE PRUDENT SPECULATOR
Value "Buy" Signal Same as March 2000

Value Stocks came to life over the past three months, 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.



Given the Thanksgiving break and that work is now underway on the December edition of *The Prudent Speculator* (we are aiming to post *TPS 638* late Tuesday evening, December 3, or early Wednesday morning, December 4), we will conclude this week's *Market Review* with the reminder that we continue to be optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks. Yes, we always must be braced for downside volatility, as pullbacks are an inevitable part of the investment process and short-term stock movements are highly susceptible to geopolitical events these days, but we think valuations are very much reasonable, given the low interest rate environment, investor sentiment that is a long way from euphoric, despite the record highs, and the fact that the economy still seems to be hanging in well enough to keep corporate balance sheets and income statements in good shape.

To expand on that last item, Uncle Sam last week revised its calculation of Q3 U.S. GDP growth to 2.1%, up from a previous tally of 1.9%,…

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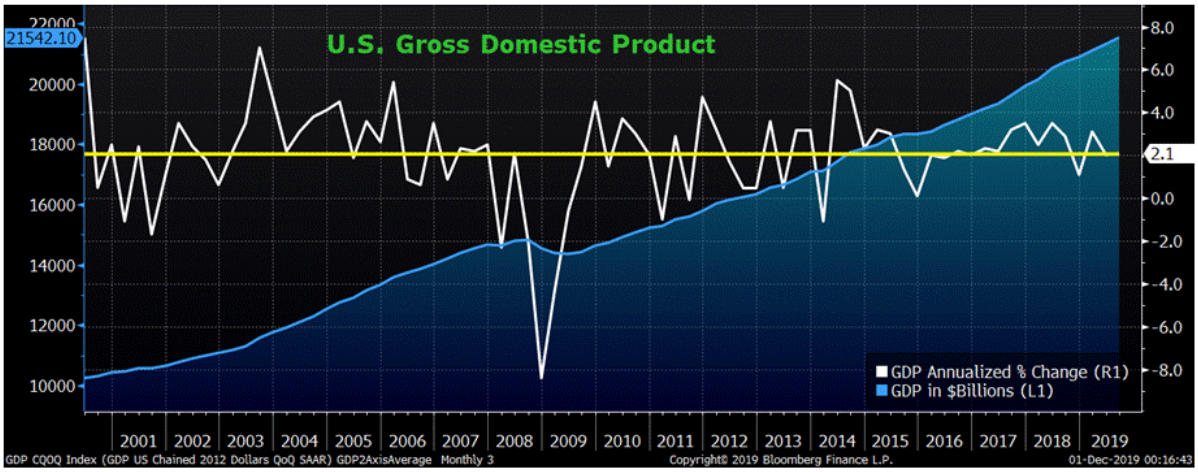
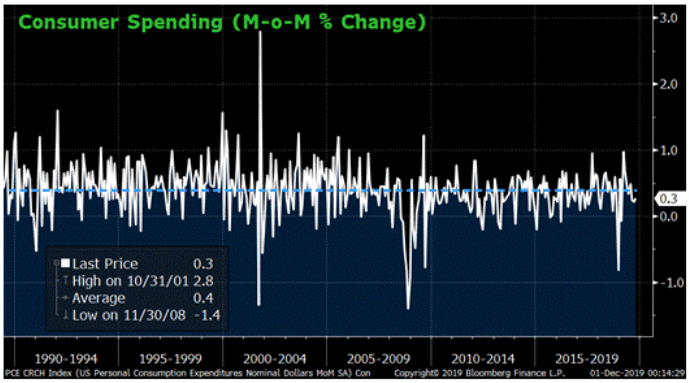
THE PRUDENT SPECULATOR
U.S. Economic Growth OK in Q3

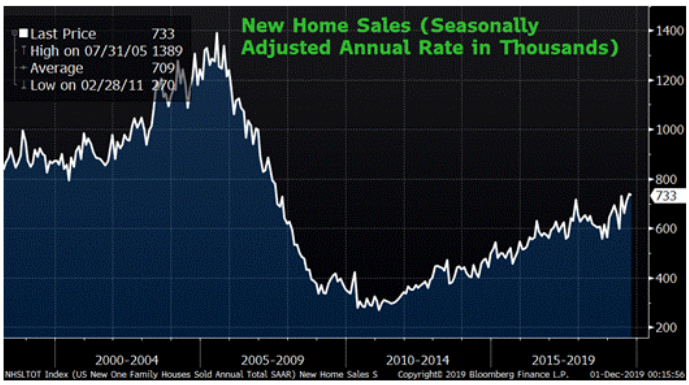
Uncle Sam calculated Q3 '19 GDP growth at a revised and moderately healthy 2.1% annualized real (inflation-adjusted) rate, rising from the 2.0% rate turned in for Q2 '19. True, 2.1% growth is hardly robust (it is about average since 2000) and many still think a recession is imminent, due in large part to the escalating trade tensions, but even a modest downturn would still see the economy expand on a nominal basis.



…while the latest numbers on the willingness of consumers to keep their pocketbooks open remained positive.

Consumers Still Relatively Upbeat

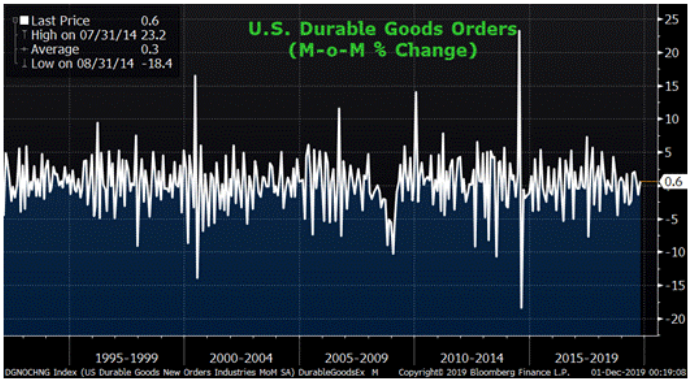


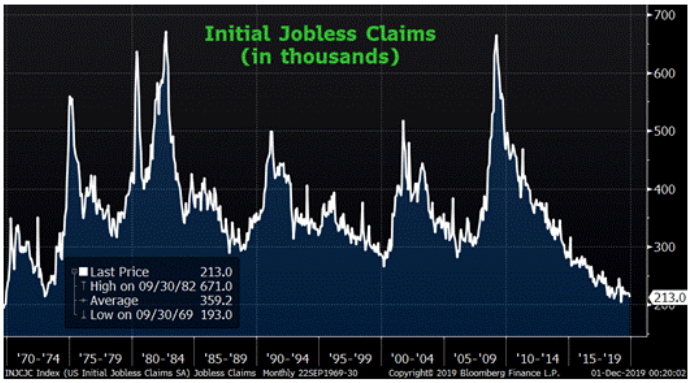


With the tariff skirmish still a weight, the Commerce Department reported that consumer spending gained a better-than-expected 0.3% in October, the eighth straight monthly increase. Also, very low interest rates and a favorable jobs picture have buoyed the housing market, with the latest read on new home sales coming in at a near-12-year high of 733,000 on a seasonally adjusted annual rate.

Of course, other data points released last week, such as personal income coming in flat for October and consumer confidence dipping to the lowest level since the spring, were not as robust as hoped, but those modest disappointments were more than offset by other figures that suggest that a near-term recession is not in the cards.

Favorable Econ Stats





While the volatile defense component goosed the number, orders for durable goods in October came in much better than expected, rising 0.6%, compared to the consensus projection of a drop of 1.1%, with even the ex-military figure of a 0.1% increase topping forecasts. Also bettering estimates, first-time filings for unemployment benefits continue near five-decade lows, with the latest week's tally falling to 213,000.

Stock Updates

We also are in the process of posting updated Target Prices to our website for all 120+ of our formerly recommended but not yet closed out stocks, while Jason Clark and Chris Quigley offer updates on 2 of our companies that were out with news this past week of sufficient importance to trigger a review of their Target Prices. 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/.

Tsakos Energy Navigation Ltd. (TNP – $3.55) posted a Q3 loss of $0.22 per share vs. analyst estimates of a loss of $0.11. Sales of $101 million were lower than projections of $108 million, but were roughly 9% higher than the comparable quarter last year. After navigating a rocky environment over the past several years, there are indications that the tide may start to turn for those in the shipping business. COO George Saroglou explained, "Both long-term and short-term market fundamentals are favorable for tankers. We have a low [industry] order book and aging fleet, growing of global oil demand and short-term effects created by sanctions, geopolitical events, delays in retrofits, vessel storage ahead of the new IMO regulations, stronger second half 2019 demand for oil due to seasonality and the return on refineries from longer maintenance than typical."

Management expects a rising charter spot environment throughout next year and has organized a laddered charter maturity structure so that nearly half of currently chartered vessels will have exposure to the spot market, while utilizing fixed rate charters to cover operating expenses. CEO Nikolas Tsakos also made debt repayment a priority, saying that the company has been putting aside money to purchase the 8.5% and 8.75% coupon preferred issues next year, with those preferred dollars raised to finance counter-cyclical vessel purchases over recent years.

While it hasn't quite been smooth sailing for much of the year, TNP shares have rebounded over 33% so far in 2019. And, as shipping industry fundamentals start to shift to the positive, we are reminded that the stock has traded at several times its current level during previous cyclical highs. We are encouraged by the firm's priority to maintain and grow the dividend, control debt and pursue conservative chartering structures that cover fixed costs with upside through profit sharing. Shares offer a dividend yield of 5.6%. Our Target Price has been raised to $5.20.

Agricultural and farm machinery firm **Deere & Co.** (DE – $168.05) reported fiscal Q4 2019 financial results that came in ahead of consensus analyst estimates, but shares dropped more than 4% after guidance was softer than expected. For the quarter, Deere announced adjusted EPS of $2.14, versus expectations of $2.13. DE had sales of $8.70 billion (vs. $8.40 billion est.). Deere expects GAAP net income to come in between $2.7 billion and $3.1 billion for fiscal 2020, a drop from the $3.2 billion earned in 2019.

"While uncertainty lingers in the U.S. ag market, replacement demand and increased adoption of precision technology will continue to be critical factors for 2020," said Brent Norwood, Manager of Investor Communications. "As North American farmers work through trade issues and adverse weather conditions, sentiment in Brazil remains stable, offsetting weakness in other South American markets such as Argentina. In the Construction & Forestry division, retail demand remained steady as end markets benefit from generally positive economic conditions. At the same time, dealers are cautiously managing inventory levels to ensure their ability to meet current demand while maintaining flexibility as activity fluctuates."

CFO Ryan Campbell offered some color on the outlook, "2019 was a challenging year with respect to losses in our lease portfolio and managing through midyear production cuts in large ag. However, the measures we've taken position us with greater flexibility to respond to market conditions in the future. Now as we shift our focus towards 2020 and beyond, we've recently launched some key initiatives to help us better execute our strategy. First, [we implemented] a streamlined organizational structure with reduced layers, reset to focus on delivering technology and innovation at an increasingly rapid pace. Second, these actions will drive capital allocation decisions that further prioritize markets, products and services with the highest potential for differentiation as well as advance our solutions offerings focused on improving customer outcomes throughout their production systems. Lastly, we'll accelerate our capture of aftermarket parts and services, leveraging our dealer channel and unique tools such as connected support and expert alerts."

Mr. Campbell concluded, "We acknowledge the uncertain environment we are operating in. However, we take these strategic measures as beginning steps to reshape our organization and

capitalize on the tremendous opportunities in front of us, particularly as it relates to precision technologies."

While DE's profit forecast isn't great, it's not unexpected either considering the relative weakness in the agriculture industry and trade clash with China. Even though Deere only earns about 8% of revenue from the Asia/Africa/Middle East region, the headwinds are generally from U.S. farmers, who are operating cautiously, particularly around significant equipment expenditures, due to the uncertainty surrounding their ability to sell crops to China. Looking past those headwinds, we remain optimistic about the long-term potential of global agriculture in general as the decline of worldwide arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. Shares yield 1.8% and management has made significant share repurchases. Our Target Price for DE now stands at $183.