Market Commentary Monday, January 13, 2020

January 13, 2020

EXECUTIVE SUMMARY

Newsletter Portfolio Purchases – 6 Stocks for 3 Accounts
Week in Review – Middle East Hostilities Quite Down
Risk of Hedging – Hard to Get the Timing Right
Volatility – Normal for Stock Prices to Gyrate
Market of Stocks – Value and Dividend Payers Attractive
Corporate Profits – EPS Likely to Continue to Show Solid Growth in 2020
Econ News – Data Supports an Outlook for Modest GDP Growth
Stock News – Updates on AAPL, KSS, WBA & GBX

Market Review

A little housekeeping…As discussed in the January edition of *The Prudent Speculator*, we bought the following on Tuesday, January 7.

Buckingham Portfolio
44 **General Dynamics** (GD – $179.51) at $181.257
115 **Comerica** (CMA – $68.42) at $69.2691

Millennium Portfolio
162 **NetApp** (NTAP – $63.13) at $61.67
315 **Goodyear Tire** (GT – $14.47) at $14.95

PruFolio
144 **Cardinal Health** (CAH – $50.63) at $49.61
192 **Schlumberger** (SLB – $39.83) at $40.53

No doubt, events could have developed differently, as for a moment last week it appeared that the U.S. and Iran were on the brink of a full-fledged war, while there is no assurance that the current de-escalation of hostilities holds. But, with the price of oil dropping 6% and the Volatility Index skidding 9% last week, we were again reminded of the oft-stated Peter Lynch quotation, "Far more money has been lost preparing for corrections than has been lost in the corrections themselves." Indeed, hedging usually is an expensive proposition, especially as it is extraordinarily difficult to get the timing right…and even if the big selloff happens to occur when insurance is held, one generally has to cash in the policy when fear is at its highest, lest the premium quickly evaporate.

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THE PRUDENT SPECULATOR
The Only Problem with Market Timing…

The only problem with market timing is getting the timing right, but that does not stop attempts to hedge portfolios. Of course, with many instruments used to hedge, if disaster does not strike or the "insurance" policy is not cashed in near the point of maximum fear, the hedge itself can generate sizable losses. Case in point, the Volatility Index is now down 9% on the year, despite being up 19% at one point on 1.6.20.

Of course, a potential conflagration in the Middle East is one of many issues with which investors must currently contend, but this is nothing new as there always have been disconcerting events about which to fret,…

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THE PRUDENT SPECULATOR
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	189%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	150%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	172%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	128%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	129%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	97%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	77%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	63%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	61%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%		58%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%		55%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		62%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		58%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		74%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		55%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		53%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**68%**	**93%**

Source: Kovitz Investment Group using data from Bloomberg. As of 1.10.20

…with stocks suffering plenty of selloffs, none of which we managed to avoid, over the 42+ years that *The Prudent Speculator* has been published.

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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	1/9/2020	39.28%	BULL
	Average Drop	-17.88%	BEAR		Average Increase	40.59%	BULL

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.

Happily, while the downturns are never pleasant, the gains during the winning periods have dwarfed the losses,…

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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%	109.9%	934	26	3.5	3/9/2009	1/9/2020
17.5%	66.8%	580	38	2.4	12/24/2018	1/9/2020
15.0%	66.6%	563	44	2.1	12/24/2018	1/9/2020
12.5%	44.0%	335	71	1.3	12/24/2018	1/9/2020
10.0%	34.6%	244	97	0.9	12/24/2018	1/9/2020
7.5%	23.5%	149	154	0.6	12/24/2018	1/9/2020
5.0%	14.7%	73	300	0.3	8/14/2019	1/9/2020

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 1.9.20. 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%	25.8%
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 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

…so much so that equities have generated terrific long-term returns for folks who can stay focused on their long-term investment objectives and not emotionally react to the latest scary headline or dire warning from a supposed market pundit.

THE PRUDENT SPECULATOR
Quintupling Despite Scary Headlines

We like the recent *Irrelevant Investor* blog post from Michael Blatnick… As Mr. Blatnick wrote, "When I sat down to create a 'Wall of Worry' chart, the hard part wasn't coming up with the list, but rather choosing what to leave off. Those that didn't make the cut…→"

- **MF Global Bankruptcy**
- **All the quantitative easing programs**
- **Ashton Kutcher is a venture capitalist**
- **China hard landing(s)**
- **CAPE ratio**
- **Occupy Wall Street**
- **Mike Tyson reps a brokerage platform**
- **Is Deutsche Bank the next Lehman?**
- **Yuan devaluation**
- **Celebrities buying stocks, Mila Kunis, Joe Theismann, Kenny G**
- **Tony Robbins is a financial advisor**
- **Peak profit margins**
- **Margin debt**
- **Buyback-palooza**
- **Infinite leverage**

Certainly, we do not mean to imply that investors should simply buy and forget, especially as valuations for many stocks are quite rich, while others are very attractive,…

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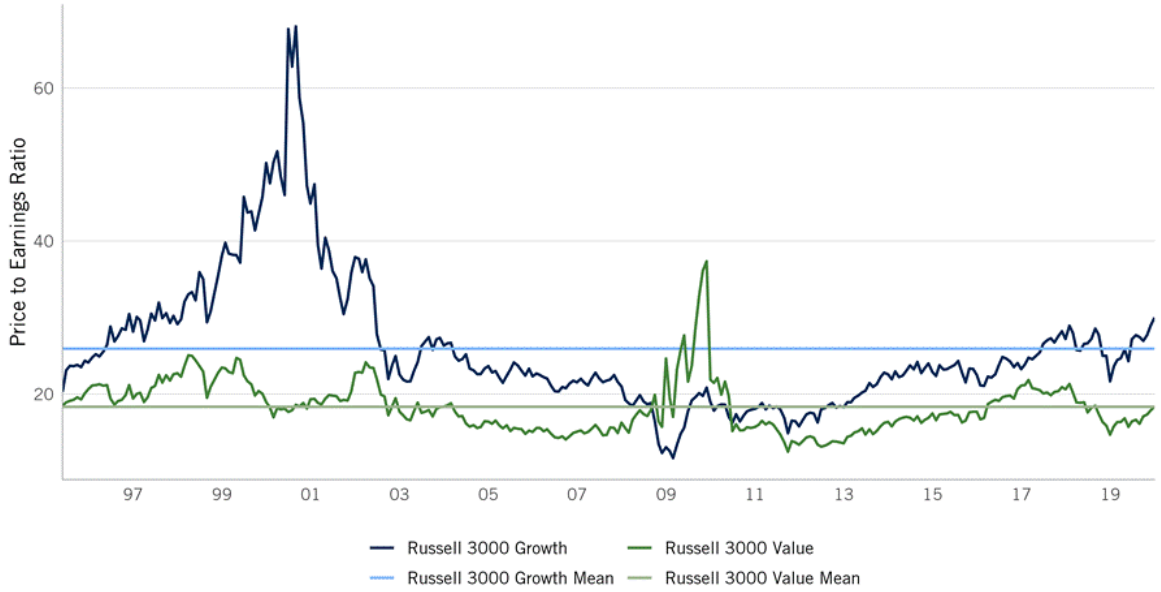
THE PRUDENT SPECULATOR
Valuation Disparity – Price to Earnings

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

…meaning that we think active portfolio management with a Value and Dividend focus…

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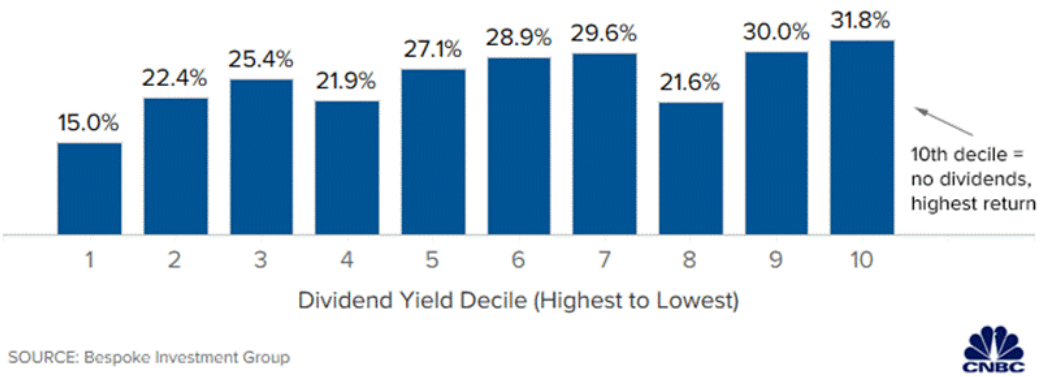
THE PRUDENT SPECULATOR
Dividend Payers Attractively Valued

While dividend-paying stocks have outperformed non-dividend payers by a sizable percentage over the long haul, that was not the case in 2019…which we thinks bodes well for income producers in 2020.



…is very important. After all, as the *Intelligent Investor* column in this weekend's *Wall Street Journal* stated, "When value gets this cheap [relative to growth], the odds of it succeeding in the future go up drastically."

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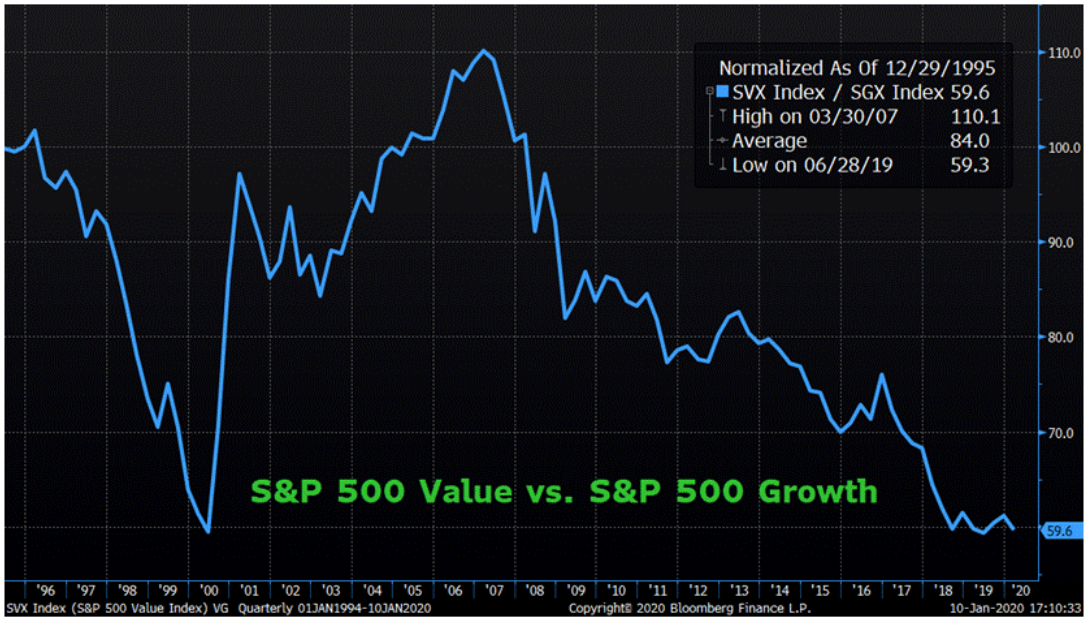
THE PRUDENT SPECULATOR
Value "Buy" Signal on Par with Mar 2000

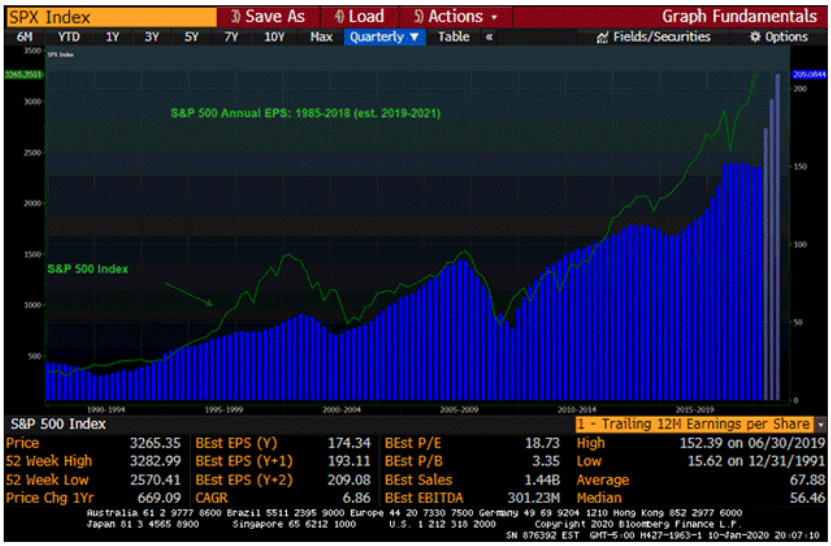
While it is frustrating to see the Amazons continue to head north, while companies with inexpensive financial fundamentals lag behind, Value Stocks are now extraordinarily attractive relative to Growth.



While geopolitics will likely remain front and center, Q4 earnings reporting season will get underway this week. We expect the results to be pretty good, as has usually been the case, and we think that forward guidance will be cautious, as has also been standard operating procedure of late. Of course, operating earnings are still likely to grow nicely on a year-over-year basis in the quarter, with continued growth projected in 2020,…

Growing Black Ink for Corporate America

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.



Quanter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2020	$46.08	$175.52
9/30/2020	$45.72	$169.63
6/30/2020	$43.43	$163.72
3/31/2020	$40.29	$160.43
12/31/2019	$40.19	$158.13
9/30/2019	$39.81	$152.97
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 12.31.19

…as the global economy is expected to muddle along this year,…

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THE PRUDENT SPECULATOR
World Bank Expects 2.5% Global Growth

4 CHAPTER 1 GLOBAL ECONOMIC PROSPECTS | JANUARY 2020

TABLE 1.1 Real GDP[1]
(Percent change from previous year)

	2017	2018	2019e	2020f	2021f	2022f	Percentage point differences from June 2019 projections 2019e	2020f	2021f
World	**3.2**	**3.0**	**2.4**	**2.5**	**2.6**	**2.7**	**-0.2**	**-0.2**	**-0.2**
Advanced economies	**2.4**	**2.2**	**1.6**	**1.4**	**1.5**	**1.5**	**-0.1**	**-0.1**	**0.0**
United States	2.4	2.9	2.3	1.8	1.7	1.7	-0.2	0.1	0.1
Euro Area	2.5	1.9	1.1	1.0	1.3	1.3	-0.1	-0.4	0.0
Japan	1.9	0.8	1.1	0.7	0.6	0.4	0.3	0.0	0.0
Emerging market and developing economies	**4.5**	**4.3**	**3.5**	**4.1**	**4.3**	**4.4**	**-0.5**	**-0.5**	**-0.3**
Commodity-exporting EMDEs	2.2	2.0	1.5	2.6	2.9	3.0	-0.6	-0.5	-0.1
Other EMDEs	6.2	5.8	4.8	5.1	5.2	5.2	-0.4	-0.4	-0.3
Other EMDEs excluding China	5.4	5.0	3.3	4.0	4.4	4.5	-0.9	-0.8	-0.6
East Asia and Pacific	6.5	6.3	5.8	5.7	5.6	5.6	-0.1	-0.2	-0.2
China	6.8	6.6	6.1	5.9	5.8	5.7	-0.1	-0.2	-0.2
Indonesia	5.1	5.2	5.0	5.1	5.2	5.2	-0.2	-0.2	-0.1
Thailand	4.0	4.1	2.5	2.7	2.8	2.9	-1.0	-0.9	-0.9
Europe and Central Asia	4.1	3.2	2.0	2.6	2.9	2.9	0.4	-0.1	0.0
Russia	1.6	2.3	1.2	1.6	1.8	1.8	0.0	-0.2	0.0
Turkey	7.5	2.8	0.0	3.0	4.0	4.0	1.0	0.0	0.0
Poland	4.9	5.1	4.3	3.6	3.3	3.1	0.3	0.0	0.0
Latin America and the Caribbean	1.9	1.7	0.8	1.8	2.4	2.6	-0.9	-0.8	-0.3
Brazil	1.3	1.3	1.1	2.0	2.5	2.4	-0.4	-0.5	0.2
Mexico	2.1	2.1	0.0	1.2	1.8	2.3	-1.7	-0.8	-0.6
Argentina	2.7	-2.5	-3.1	-1.3	1.4	2.3	-1.9	-3.5	-1.8
Middle East and North Africa	1.1	0.8	0.1	2.4	2.7	2.8	-1.2	-0.8	0.0
Saudi Arabia	-0.7	2.4	0.4	1.9	2.2	2.4	-1.3	-1.2	-0.1
Iran	3.8	-4.9	-8.7	0.0	1.0	1.0	-4.2	-0.9	0.0
Egypt[2]	4.2	5.3	5.6	5.8	6.0	6.0	0.1	0.0	0.0
South Asia	6.7	7.1	4.9	5.5	5.9	6.0	-2.0	-1.5	-1.2
India[2]	7.2	6.8	5.0	5.8	6.1	6.1	-2.5	-1.7	-1.4
Pakistan[2]	5.2	5.5	3.3	2.4	3.0	3.9	-0.1	-0.3	-1.0
Bangladesh[2]	7.3	7.9	8.1	7.2	7.3	7.3	0.8	-0.2	0.0
Sub-Saharan Africa	2.7	2.6	2.4	2.9	3.1	3.3	-0.5	-0.4	-0.4
Nigeria	0.8	1.9	2.0	2.1	2.1	2.1	-0.1	-0.1	-0.3
South Africa	1.4	0.8	0.4	0.9	1.3	1.5	-0.7	-0.6	-0.4
Angola	-0.1	-1.2	-0.7	1.5	2.4	3.0	-1.7	-1.4	-0.4

We have to admit that the contrarian in us liked it last year when the good folks at the World Bank joined the sensationalistic media world by titling their 2019 Global Economic Prospects report, "Darkening Skies!" This year, they have opted for the mundane title, "Slow Growth, Policy Challenges," while slightly boosting the outlook for U.S. GDP growth by 0.1% for both 2020 and 2021.

…and the latest U.S. econ measures on the health of the service sector…

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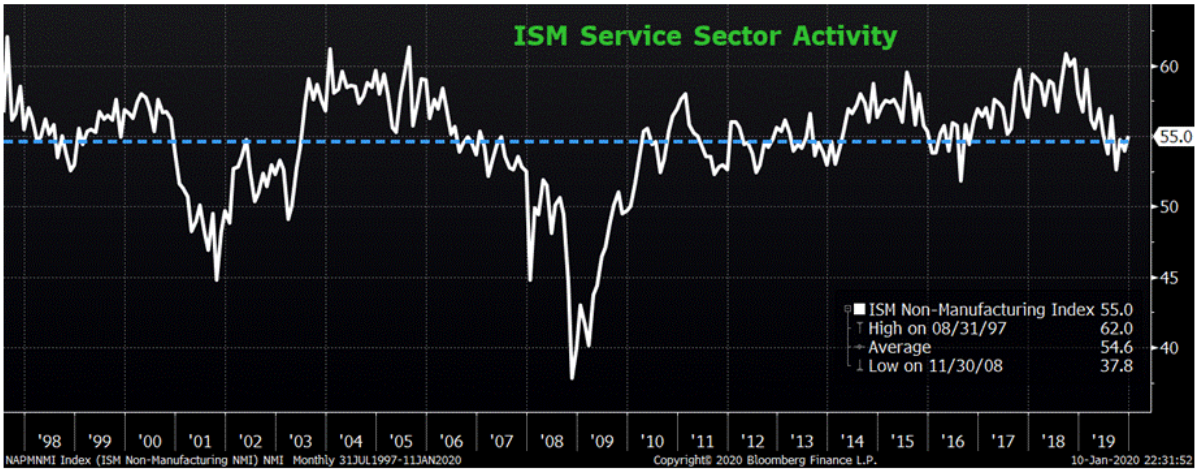
THE PRUDENT SPECULATOR
ISM Non-Manufacturing Rises

The December reading on the health of the service sector (NMI) came in better than expected at 55.0, above the historical norm, and a signal of growth in the non-manufacturing economy, with the Institute for Supply Management stating, "The past relationship between the NMI and the overall economy…corresponds to a 2.2% increase in real gross domestic product (GDP) on an annualized basis."



…and the employment situation,…

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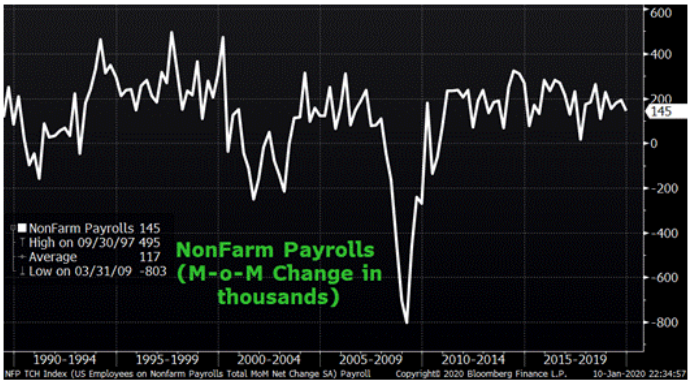
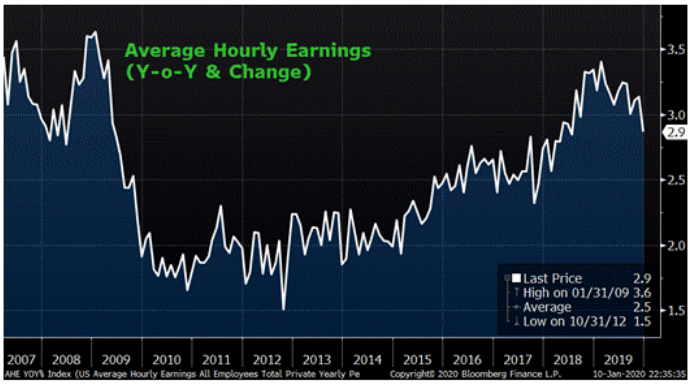
THE PRUDENT SPECULATOR
OK Employment Report





The number of new jobs created during December pulled back to a weaker-than-expected 145,000 from a revised 256,000 in November, while the rate of those who are underemployed fell to 6.7%, the lowest on record dating back to 1994. The annual gain in average hourly earnings was 2.9%, continuing to suggest that inflation in the labor market remains in check, though the increase was the smallest in 17 months.

…support a relatively favorable backdrop for business.

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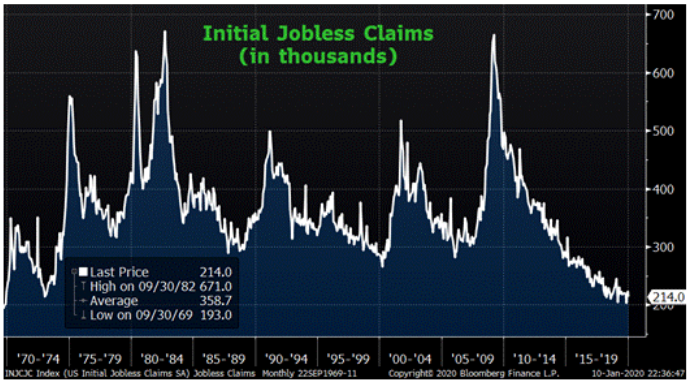
THE PRUDENT SPECULATOR
Historic Lows in Jobless Numbers



The jobs number in December came in a bit below forecasts, but the unemployment rate held at 3.5%, a 50-year low, with no change in the labor participation rate of 63.2%. And, the latest figures on initial claims for unemployment benefits saw 214,000 new filings, still near lows last seen back in December 1969, when the workforce was significantly smaller than it is today.

Stock Updates

Jason Clark and Chris Quigley take a look at four of our companies that were out with news last week of sufficient importance to trigger a review of their respective Target Prices. Note that all stocks are rated as a "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 (AAPL – $310.33) reached even higher highs and analysts scrambled to upgrade the stock after the company reported that its services business had a record 2019. "2019 was the biggest year for Services in Apple's history. We introduced several exciting new experiences for our customers, all while setting the standard for user privacy and security," said Eddy Cue, Apple's senior vice president of Internet Software and Services. "We begin the new decade with incredible momentum and gratitude to our customers who have shown such enthusiasm for all of our Services, and we continue to celebrate the work of the world's best creators, storytellers, journalists and developers." The analyst consensus 12-month target price, using data in Bloomberg, stands at $280 compared with $261 around this time last month. Upgrades included one analyst, who despite being "Neutral" on the company, bumped up his price target by $54 since the last update December 12.

Reuters also reported on Thursday that sales of iPhone in China jumped more than 18%, versus the same period a year ago, using data published by the China Academy of Information and Communications Technology and calculated by Reuters. The company shipped more than 3.2 million phones in the country.

Apple reports its next quarterly earnings on January 28, which we would expect to include solid iPhone unit sales and an update on the company's sales strategy in the Middle Kingdom. Apple shares have already climbed more than 5% this year, adding to an outstanding 89% gain in 2019. Despite the huge $1-trillion-plus market capitalization, we think that the valuation is still not that unreasonable, with metrics like a forward price to earnings ratio of 23.8, a free cash flow yield of 4.7% and a dividend yield of 1.0%, which we might expect to increase in the near future. Not ready just yet to part with any more of our AAPL shares, we have ratcheted our Target Price up to $319.

Shares of **Kohl's** (KSS – $46.36) fell almost 6% last week after the department-store retailer announced its comparable sales for November and December 2019. The combined two-month period saw same-store sales decrease 0.2% during the all-important holiday season, versus the same period last year. Management also said it now expects its full-year EPS to come in at the low end of previously announced guidance.

CEO Michelle Gass explained, "Throughout the holiday period, we remained focused on serving our loyal customers and engaging with an increasing number of new customers. We are managing the business with discipline and we expect to deliver on our earnings guidance for the full year. We continue to see momentum in key areas including our digital business, active, beauty and children's, and solid performance in footwear and men's. This was offset by softness in women's, which we are working with speed to address. I want to thank our associates for their exceptional work in delivering a great customer experience during the important holiday period."

"As we look ahead, we are committed to driving innovation and bringing new experiences to both our existing and new customers. We look forward to sharing additional details on our key growth initiatives at our upcoming investor day (which will occur in mid-March 2020)," Ms. Gass added.

There is little doubt that the increased investment to try to drive store traffic has impacted bottom-line performance as competition from both brick-and-mortar and online retailers heats up. Additionally, the foot traffic that many hoped for from the Amazon returns program Kohl's hosts in many of its stores hasn't quite materialized yet. While a lot of evolution has occurred under KSS's Greatness Agenda initiatives, there is still much more work to be done. The Greatness Agenda includes enhanced e-commerce, better use of physical space, improvements in merchandising (such as added floor space for popular athletic brands), and data-driven promotions.

Several analysts that previously had a positive view of Kohl's threw in the towel last week, but we still believe management can get the company turned around, though some tough decisions may need to be made. Of course, with Kohl's still likely to post EPS of more than $4.50 in fiscal '21 (ends 1/21) and '22 (ends 1/22), it isn't as if there aren't any profits and free cash flow to

support the very generous dividend payout (the yield is 5.8%) and stock buyback program. With the shares trading near 10 times earnings, our Target Price on KSS now stands at $63.

Walgreens Boots Alliance (WBA – $54.22) opened trading Wednesday morning down 5.5% percent from the previous close after the healthcare concern announced earnings that missed analyst estimates ($1.37 vs. 1.41). Benefits from management's cost saving program are starting to bear fruit, but prescription volume growth of 2.8% was lower than the 4.0% figure that was expected, while consolidation across the industry continues to put pressure on reimbursement rates.

Management is relying on its Transformational Cost Management Program to meet profit guidance of flat-to-3% EPS growth in 2020. CFO James Kehoe explained, "We have a lot of stuff we're very happy about. So free cash flow was off the charts. We beat our internal budget by hundreds of millions, largely driven by programs we're implementing in the U.S….I would classify it right now as well ahead of track, particularly due to actions in the U.S. and the U.K."

Commenting on the amount of savings to be expected, Mr. Kehoe continued, "As you take out costs, the cost takeout is over the course of the year. So the savings roughly in the first quarter are around 15%. So of the total goal of–we haven't given the number. It's a large number."

While we accept that the retail pharmacy space is likely to remain challenging in the near term, we continue to like WBA's competitive position in the industry, leading to per store revenue that is roughly 45% greater than its closest peer. We also continue to believe that over the long term WBA will benefit from robust growth rates on pharmaceutical products due to the aging of the U.S. and European populations. Even as WBA continues to invest in its transformation projects with Kroger, McKesson and others, we expect the firm's robust free cash flow to support continued growth of the dividend (the yield is 3.4%) and share repurchases. That said, our Target Price for the stock has been trimmed to $94, though we note that WBA now traded for just 9 times trailing operating earnings.

Thinly-traded shares of **Greenbrier Companies** (GBX – $27.55) skidded over 13% last week, due mainly to the report of weaker-than-expected quarterly earnings per share of $0.30 (vs. estimates of $0.43). The company continues to work through challenges related to the integration of its latest acquisitions and a combination of headwinds within the rail market. On the earnings call, CEO Bill Furman explained, "The freight rail sector is participating in a partly self-induced downturn in traffic, driven by Precision Scheduled Railroading or PSR and international trade tensions. Approximately 400,000 cars or almost 25% of the North American fleet is in storage."

After growing significantly over the past two years to solidify weaker areas of the business and expand internationally, we think Mr. Furman's direction in 2020 to, "Focus on absorbing our growth, generating positive cash flow, positive ROIC and creating shareholder value" is prudent.

The railroading business is inherently cyclical, but continues to be among the most energy efficient modes of transport for freight, and we believe Greenbrier's integrated business model delivers superior value to its customers by creating customized freight car solutions over the entire life of a railcar. GBX shares currently change hands at under ten times 2020's earnings

expectations number (management has put forth EPS guidance of $2.60 to $3.00) and yield 3.9%, with the quarterly payout just being hiked to $0.27 from $0.25. We've adjusted our Target Price down to $43, but we think the price weakness this past week creates an attractive entry point for those interested in adding exposure in the Industrials sector.