Market Commentary Monday, March 2, 2020

March 2, 2020

EXECUTIVE SUMMARY

TPS 641 – March Edition of *The Prudent Speculator* Coming by Wednesday Morning
Market Carnage – Worst Week Since the Financial Crisis
COVID-19 – Figures & Facts from Johns Hopkins
Mortality Rate – Not Likely as High as Some Presently Believe
Econ Stats – U.S. Data Still Favorable
Econ Outlook – Recession Still Not the Forecast
Jerome Powell Speaks – Fed Seems Poised to Cut Interest Rates
Case for Equities – No Contest for Dividends over Fixed Income Yields
Sentiment – Folks Have Become More Pessimistic
Battered and Bruised – 25 Undervalued Stocks Down More than 15% Since 2.19.20
Target Prices – New Listing to be Posted to theprudentspeculator.com
Stock News – Updates on MCK, SJM, BASFY, FL & LOW

Market Review

Work is underway on the March edition of *The Prudent Speculator*. If all goes according to plan, we hope to email *TPS 641* late Tuesday evening, March 3, or Wednesday morning, March 4. This month, in addition to our regular Earnings Scorecard feature, we offer five first-time recommendations and we will continue our commentary on helping long-term-oriented folks keep the faith as the equity markets grapple with the coronavirus scare.

On that score, we hope that readers were able to take a look at our *Special Report* that we sent out this past Thursday afternoon, as we endeavored to offer perspective on an event that sent stocks to their worst weekly declines since the carnage during the Financial Crisis in 2008, the aftermath of 9/11 in 2001 and Black Monday 1987.

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THE PRUDENT SPECULATOR
Massive Weekly Moves in the DJIA

With only three worse weeks over the 43 years since the launch of *The Prudent Speculator* in March 1977, the Dow Jones Industrial Average plunged more than 3500 points, or 12.359%, the last week of February.

Down 12.35%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		0	1	0	0	0	0	0	0	0	1	2
Years Ending in 1		0	0	0	0	0	0	0	1	0		1
Years Ending in 2		2	0	0	0	0	0	0	0	0		2
Years Ending in 3		1	0	0	0	0	0	0	0	0		1
Years Ending in 4		0	0	0	0	0	0	0	0	0		0
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		0	0	0	0	0	1	0	0	0		1
Years Ending in 8	0	0	0	0	0	0	0	0	1	0		1
Years Ending in 9	1	0	0	0	0	0	0	0	0	0		1
Totals	1	3	1	0	0	0	1	0	2	0	1	9

From 12.31.27 though 02.28.20. Weeks of index price return drops of more than 12.35%. SOURCE: Kovitz Investment Group using data from Bloomberg

Up 12.35%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		0	0	0	0	0	0	0	0	0	0	0
Years Ending in 1		1	0	0	0	0	0	0	0	0		1
Years Ending in 2		2	0	0	0	0	0	0	0	0		2
Years Ending in 3		1	0	0	0	0	0	0	0	0		1
Years Ending in 4		0	0	0	0	1	0	0	0	0		1
Years Ending in 5		0	0	0	0	0	0	0	0	0		0
Years Ending in 6		0	0	0	0	0	0	0	0	0		0
Years Ending in 7		0	0	0	0	0	0	0	0	0		0
Years Ending in 8	0	1	0	0	0	0	0	0	0	0		1
Years Ending in 9	0	0	0	0	0	0	0	0	0	0		0
Totals	0	5	0	0	0	1	0	0	0	0	0	6

From 12.31.27 though 02.28.20. Weeks of index price return gains of more than 12.35%. SOURCE: Kovitz Investment Group using data from Bloomberg

While the equity futures on Sunday afternoon and evening gyrated between big losses and sizable gains, suggesting a continuation of the incredible volatility when trading resumes this week, we reprise and update commentary from *EPIDEMICS: COVID-19 NOT THE FIRST, NOR THE LAST*.

No doubt, the headlines related to the novel coronavirus (COVID-2019) remains disconcerting, with the weekend bringing news of the first two fatalities in the U.S., a spike in the number of cases in Italy and the continued spread of the disease around the world.

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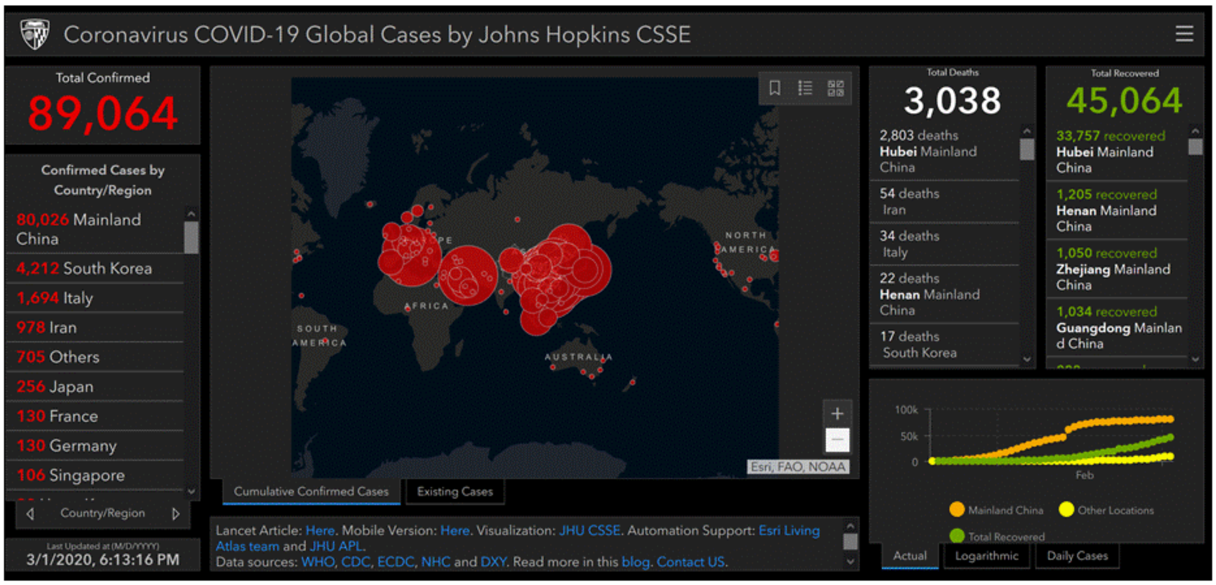
THE PRUDENT SPECULATOR
COVID-19's Global Spread

The good folks at Johns Hopkins have created a Coronavirus COVID-19 tracking app, with the tally of confirmed cases, including more than a few in the U.S., standing at more than 89,000 as of March 1.



https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

Certainly, we do not want to downplay the risks to our health related to COVID-19, even as 97% of those officially diagnosed have survived the disease, while the death rate from the SARS version of the coronavirus back in 2002-2003 was upwards of 10% and the Western Africa Ebola virus killed 11,300 people from 2014-2016. And, we respect that the Centers for Disease Control and Prevention (CDC) sounded the alarm on Feb 25, stating that Americans must begin preparing for a possible pandemic outbreak in the U.S. with schools considering internet-based tele-schooling, local communities and cities potentially modifying, postponing or cancelling mass gatherings, and businesses replacing in-person meetings with video or telephone conferences.

Scary stuff, indeed, though as there has been little media fanfare associated with the sobering CDC statistic that through the first seven weeks of 2020, there have been more than 25,000 combined deaths from pneumonia and influenza just in the United States. Further, we find it interesting that more than 350,000 people in the U.S. alone have died from pneumonia/influenza over the last decade, yet not everyone gets a flu shot. Yes, we respect that COVID-19 is far worse than the flu, but, as John Hopkins also points out, there are similarities,…

THE PRUDENT SPECULATOR
COVID-19 and the Flu: Similarities

Similarities: COVID-19 and the Flu

Symptoms

Both cause fever, cough, body aches, fatigue; sometimes vomiting and diarrhea.

Can be mild or severe, even fatal in rare cases.

Can result in pneumonia.

Transmission

Both can be spread from person to person through droplets in the air from an infected person coughing, sneezing or talking.

A possible difference: COVID-19 might be spread through the airborne route (see details below under Differences).

Flu can be spread by an infected person for several days before their symptoms appear, and COVID-19 is believed to be spread in the same manner, but we don't yet know for sure.

Treatment

Neither virus is treatable with antibiotics, which only work on bacterial infections.

Both may be treated by addressing symptoms, such as reducing fever. Severe cases may require hospitalization and support such as mechanical ventilation.

Prevention

Both may be prevented by frequent, thorough hand washing, coughing into the crook of your elbow, staying home when sick and limiting contact with people who are infected.

https://www.hopkinsmedicine.org/health/conditions-and-diseases/coronavirus/coronavirus-disease-2019-vs-the-flu

…in addition to the differences, the last of which on the list below is staggering…

Differences: COVID-19 and the Flu

Cause

COVID-19: Caused by one virus, the novel 2019 coronavirus, now called severe acute respiratory syndrome coronavirus 2, or SARS-CoV-2.

Flu: Caused by any of several different types and strains of influenza viruses.

Transmission

While both the flu and COVID-19 may be transmitted in similar ways (see the Similarities section above), there is also a possible difference: COVID-19 might be spread through the airborne route, meaning that tiny droplets remaining in the air could cause disease in others even after the ill person is no longer near.

Antiviral Medications

COVID-19: Antiviral medications are currently being tested to see if they can address symptoms.

Flu: Antiviral medications can address symptoms and sometimes shorten the duration of the illness.

Vaccine

COVID-19: No vaccine is available at this time, though it is in progress.

Flu: A vaccine is available and effective to prevent some of the most dangerous types or to reduce the severity of the flu.

Infections

COVID-19: Approximately 84,119 cases worldwide; 62 cases in the U.S. as of Feb. 28, 2020.

Flu: Estimated 1 billion cases worldwide; 9.3 million to 45 million cases in the U.S. per year.

Deaths

COVID-19: **Approximately 2,871 deaths reported worldwide; 0 deaths in the U.S., as of Feb. 28, 2020.**

Flu: **291,000 to 646,000 deaths worldwide; 12,000 to 61,000 deaths in the U.S. per year.**

https://www.hopkinsmedicine.org/health/conditions-and-diseases/coronavirus/coronavirus-disease-2019-vs-the-flu

And, we might add that Dr. Arthur L. Reingold, the Division Head of Epidemiology and Biostatistics at Cal Berkeley told *KNX 1070 Radio* listeners on Feb 25 that the COVID-19 mortality rate is likely far lower than the worrisome 2% to 3% number that has been highlighted in the press, given that many who contract the ailment but are asymptomatic or minimally symptomatic are not counted in the denominator of the equation as they have not sought treatment or been formally diagnosed. Further, the good doctor said he would have gone to Malaysia for a meeting the week prior, with any worry related to being stuck in a potentially lengthy quarantine than any health issue, but the organizers canceled the event.

The New York Times this weekend echoed Dr. Reingold's views in regard to the death rate, stating, "The true death rate could turn out to be similar to that of a severe seasonal flu, below 1 percent, according to an editorial published in the journal by Dr. Anthony S. Fauci and Dr. H. Clifford Lane, of the National Institute of Allergy and Infectious Diseases, and Dr. Robert R. Redfield, director of the Centers for Disease Control and Prevention."

The editorial referenced is from the *New England Journal of Medicine*, in which the three doctors opine, "If one assumes that the number of asymptomatic or minimally symptomatic cases is several times as high as the number of reported cases, the case fatality rate may be considerably less than 1%. This suggests that the overall clinical consequences of Covid-19 may ultimately be more akin to those of a severe seasonal influenza (which has a case fatality rate of approximately 0.1%) or a pandemic influenza (similar to those in 1957 and 1968) rather than a disease similar to SARS or MERS, which have had case fatality rates of 9% to 10% and 36%, respectively."

Of course, a mortality rate considerably less than 1% is still something about which we should be concerned, but as World Health Organization (WHO) Director-General Dr. Tedros Adhanom Ghebreyesussaid on Saturday, "Our greatest enemy right now is not the virus itself. It's fear, rumours and stigma. And our greatest assets are facts, reason and solidarity."

To be sure, it is not just fear that has led to the curtailment of international, and even domestic, travel, while attempts to quarantine or restrict movement in parts of China, Italy and elsewhere are disrupting businesses around the world and severely hurting the global supply chain. Clearly, there is very real concern for our wealth, given that the U.S. stock markets have run into significant turbulence with companies like Apple, Microsoft, Proctor & Gamble, Mastercard and United Airlines warning about COVID-19 impact on their top- and bottom-lines.

Obviously, global economic growth will take a hit, even as many countries were just beginning to see an upturn, but the depth of the impact remains the big question. China reported on Saturday that its manufacturing purchasing managers index (PMI) plummeted to 35.7 in February, from a reading of 50.0 in January, and we have to believe that U.S. economic numbers will begin to weaken, though that really was not the case last week, at least in regard to the confidence of consumers,…

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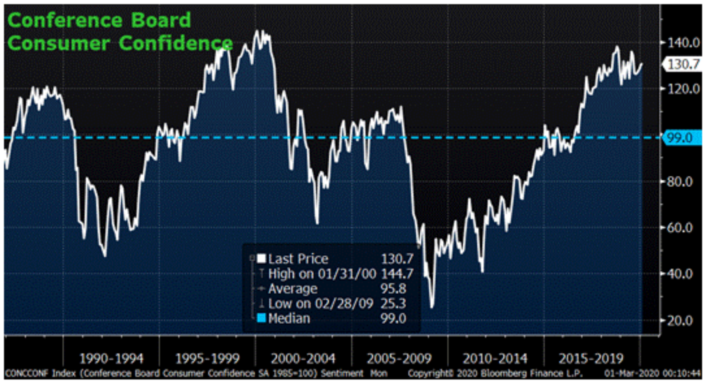
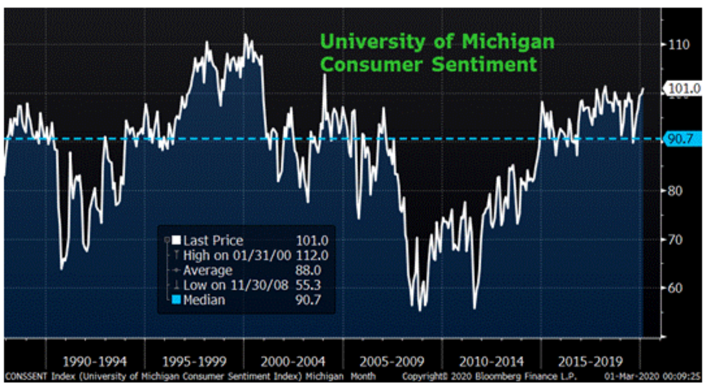
THE PRUDENT SPECULATOR
Consumers Started 2020 Upbeat





The Conference Board's read of Consumer Confidence for February came in below expectations at 130.7, but the tally remained well above the historical average and near the highest level in two decades. The Univ. of Michigan's gauge of Consumer Sentiment actually edged estimates, climbing to 101.0 in February, up from 99.8 in January and nicely above the long-term median.

…orders for durable goods and first time claims for unemployment benefits.

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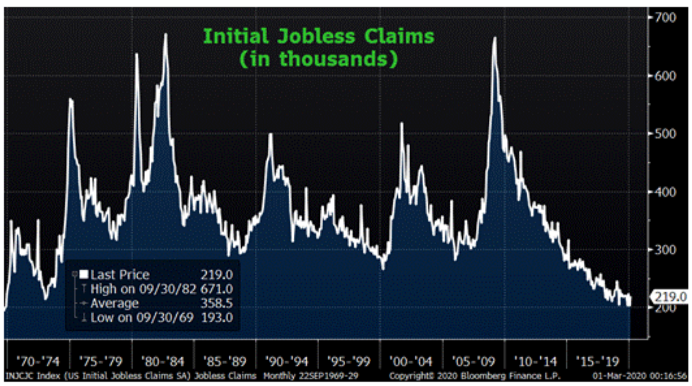
THE PRUDENT SPECULATOR
Econ Data Generally Has Been Healthy



Though down from a robust 2.9% increase in December, the headline number for durable goods orders in January came in above estimates at -0.2%. Excluding volatile transportation orders, durable goods orders rose 0.9%, the fastest growth since April 2018. Meanwhile, first-time filings for unemployment benefits continue to bounce along near five-decade lows, with the latest week's tally inching up to 219,000.

To be sure, those numbers do not account for the rapid spread of COVID-19 around the world, but the latest odds per Bloomberg of a U.S. economic recession presently reside at 25%,…

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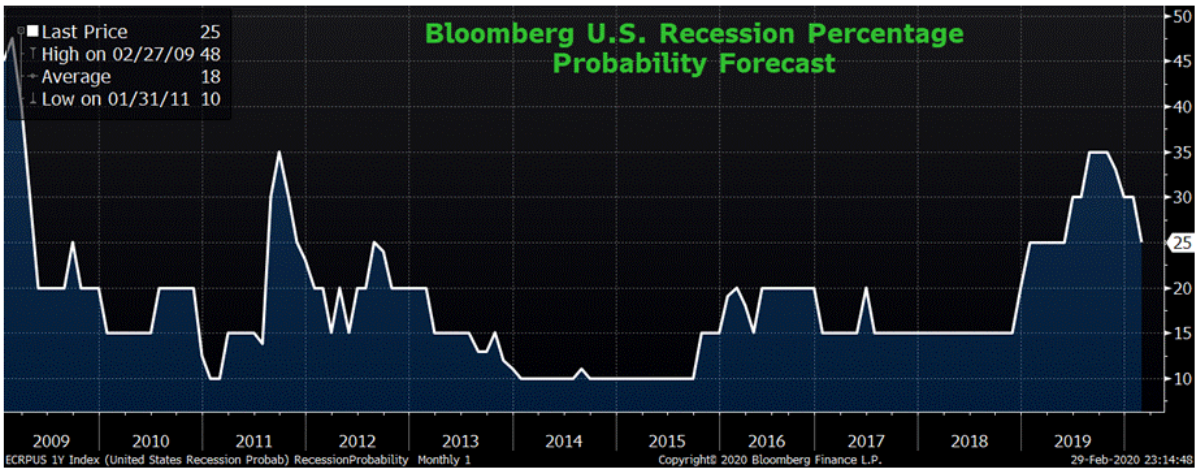
THE PRUDENT SPECULATOR
Recession Probability: Now at 25%

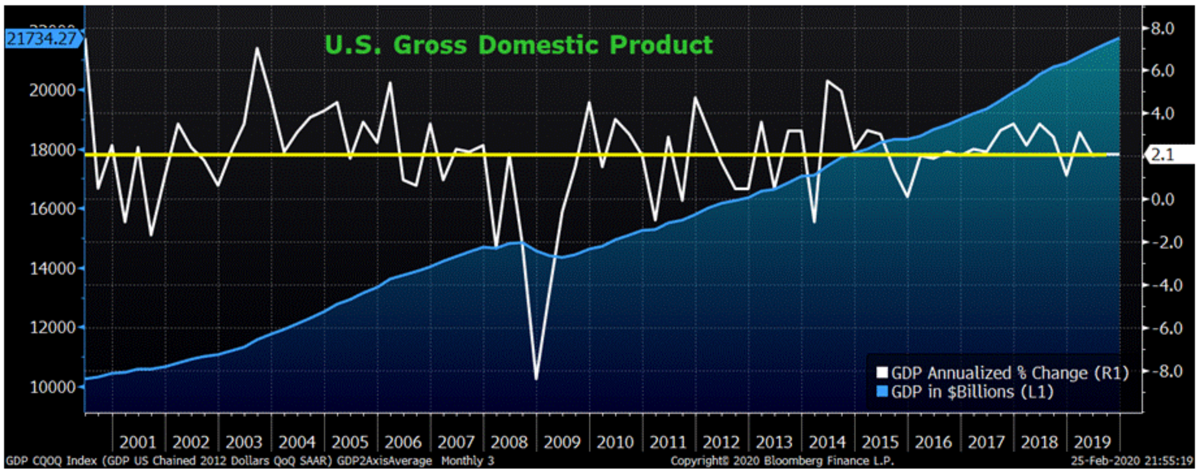
While it is clear that domestic and global economic growth will be hit hard by COVID-19, the probability of recession presently stands at 25%. To be sure, given that U.S. GDP estimates are being trimmed as we write, we expect those odds to rise, perhaps even hitting highs last seen in the fall of 2011…but that proved to be a fantastic time to buy equities, as the S&P 500 returned 30.2% over the ensuing 12 months.



…and the current (as of Feb 28, 2020) Bloomberg consensus projection for real (after-inflation) U.S. GDP growth stands at 1.8% for 2020 and 2.0% for 2021. Yes, those numbers are likely overly optimistic, with Bank of America Merrill Lynch just lowering its projections to 1.6% and 1.8%, respectively, but the long-term trend in economic growth is up, and even modestly negative real growth would see an expansion in the nominal GDP.

THE PRUDENT SPECULATOR
U.S. Economic Growth OK in Q4

Uncle Sam calculated Q4 '19 GDP growth at a better-than-expected 2.1% annualized real (inflation-adjusted) rate, equal to the rate in Q3. True, 2.1% growth is hardly robust (it is about average since 2000) and the effects of COVID-19 on health, travel and the global supply chain will weigh heavily this year, but even a modest downturn would still see the U.S. economy expand on a nominal basis.



Further, and not that we are expecting a domestic recession, we think it interesting to see how stocks have performed before and after periods of real economic contraction,…

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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 FF Value TR	Year Prior S&P 500 TR	Year Prior FF Growth TR	Recession Start Date	1 Year FF Value TR	1 Year S&P 500 TR	1 Year FF Growth TR	3 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Growth TR	5 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Growth TR	10 Year FF Value TR	10 Year S&P 500 TR	10 Year 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%
10.6%	**7.4%**	**5.2%**	**Averages**	**2.3%**	**-0.1%**	**-1.0%**	**44.4%**	**27.9%**	**24.1%**	**85.8%**	**53.0%**	**44.3%**	**338.2%**	**216.4%**	**185.7%**

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

…while, we note that Federal Reserve Chair Jerome H. Powell said the following on Friday, "The fundamentals of the U.S. economy remain strong. However, the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy." Indeed, it would seem that central bankers around the world are prepared to do what they can to support growth, with most thinking that the Fed will very soon initiate another round of interest rate cuts.

THE PRUDENT SPECULATOR
Very Low Rates Likely to Go Even Lower

World Interest Rate Probability

Enable Overrides

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	1.75	Pricing Date	02/28/2020
Effective Rate	1.58	Cur. Imp. O/N Rate	1.584

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/18/2020	-1.525	-152.5%	-0.381	1.202	0.250
04/29/2020	-2.025	-50.0%	-0.506	1.077	0.250
06/10/2020	-2.632	-60.7%	-0.658	0.926	0.250
07/29/2020	-2.975	-34.3%	-0.744	0.840	0.250
09/16/2020	-3.285	-31.0%	-0.821	0.763	0.250
11/05/2020	-3.391	-10.6%	-0.848	0.736	0.250
12/16/2020	-3.599	-20.8%	-0.900	0.684	0.250
01/27/2021	-3.775	-17.6%	-0.944	0.640	0.250

No doubt, concerns about COVID-19's impact on global growth has been the main catalyst for the recent plunge in U.S. interest rates and the spike to near $15 trillion in negative-yielding debt around the world, and the futures market is now signaling that investors expect more than three cuts in the current 1.5% to 1.75% target for the Federal Funds rate over the next 12 months.

Although we are not ready to quote FDR in stating, "The only thing we have to fear is fear itself," and we are braced for additional downside, we note that, while the speed of the latest decline has been very unusual, the magnitude of the setback is very much in line with what has been witnessed in years past,…

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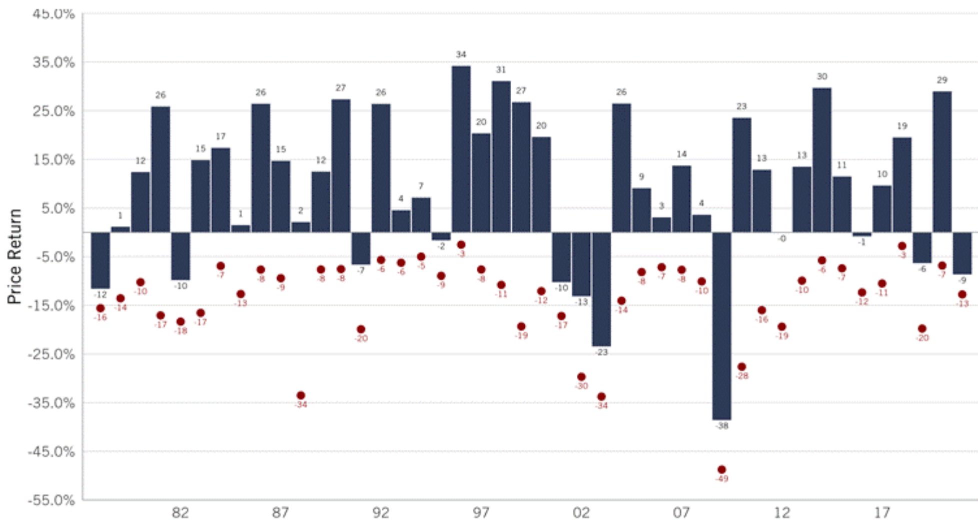
THE PRUDENT SPECULATOR
A Big Selloff Happens Almost Every Year

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 26 of the 43 years, including a 19.8% one (on a closing basis) in 2018.



From 12.31.76 through 02.28.20. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

…with the current setback the 34th skid of at least 10% since the launch of *The Prudent Speculator* in March 1977!

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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	2/19/2020	44.02%	BULL
2/19/2020	2/28/2020	-12.76%	BEAR		**Average Increase**	**40.73%**	**BULL**
	Average Drop	**-17.73%**	**BEAR**				

While some may have already forgotten about the sizable S&P 500 skid of 19.8% (on a closing basis) during an ugly three-month period in late-2018, the big coronavirus selloff has been quick and painful. Of course, there have been 33 previous pullbacks of 10% or more without an intervening 10% recovery since the launch of *The Prudent Speculator* 43 years ago. Happily, the returns in the winning periods have dwarfed the losses.

True, the correction in the S&P 500 has extended to more than 12.5% as of this writing, but stumbles of that level or greater have occurred every 1.3 years on average going back to 1928.

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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%	110.5%	936	26	3.5	3/9/2009	2/19/2020
17.5%	67.0%	581	38	2.4	12/24/2018	2/19/2020
15.0%	66.7%	564	44	2.1	12/24/2018	2/19/2020
12.5%	44.1%	336	71	1.3	12/24/2018	2/14/2020
10.0%	34.6%	245	97	0.9	12/24/2018	2/19/2020
7.5%	23.5%	149	154	0.6	12/24/2018	2/19/2020
5.0%	14.7%	73	300	0.3	8/14/2019	2/19/2020

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%	-22.5%	138	71	1.3	2/19/2020	2/28/2020
-10.0%	-19.4%	102	97	0.9	2/19/2020	2/28/2020
-7.5%	-15.4%	65	154	0.6	2/19/2020	2/28/2020
-5.0%	-10.9%	37	300	0.4	2/19/2020	2/28/2020

From 02.20.28 through 2.28.20. 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	13.2%	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 12.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz Investment Group using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

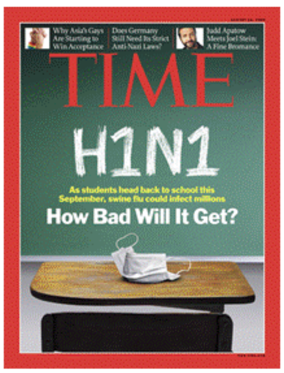
Obviously, capitalism's immune system has shown to be quite strong as stocks have proved to be very rewarding in the fullness of time for those who persevere through the numerous scary events that constantly come the market's way. That does not mean that equities won't continue to struggle in the near-term nor that alarming headlines won't continue to lead the evening news, but just in the last four decades, we have managed to persevere through HIV, SARS, Avian Flu, Swine Flu, Ebola and a host of other ailments,…

THE PRUDENT SPECULATOR
Viruses Have Yet to Kill the Stock Market

September 29, 2014

Magazine Cover	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Time Magazine: The Aids Hysteria	7/4/1983	168.91	-2%	-1%	-9%	49%	61%	1649%
Time Magazine: The Truth About SARS	5/5/2003	926.55	4%	14%	21%	43%	52%	219%
Time Magazine: Avian Flu Death Threat	9/26/2005	1,215.63	4%	7%	10%	0%	-6%	143%
Time Magazine: H1N1 How Bad Will It Get?	8/24/2009	1,025.57	8%	8%	3%	38%	94%	188%
Bloomberg BusinessWeek: Ebola Is Coming	9/29/2014	1,977.80	6%	4%	-5%	27%	50%	49%
Price Changes Only								
Does Not Include Dividends		Averages:	4%	6%	4%	31%	50%	450%

Source: Kovitz Investment Group using data from Bloomberg. As of 2.28.20



August 24, 2009

September 26, 2005

May 5, 2003

July 4, 1983

…not to mention the Crash of '87, the Gulf War, 9/11 and the Financial Crisis.

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THE PRUDENT SPECULATOR
Lots of Frightening Events

Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	33935%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	19595%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	17601%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	6833%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	6381%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	7479%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	5423%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4144%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	3067%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3816%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3106%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4121%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2708%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2908%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2373%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1725%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1107%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1214%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	834%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	685%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	618%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	566%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	546%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	485%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	237%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	208%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	140%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	120%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	206%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	222%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	171%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	147%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	337%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**4032%**

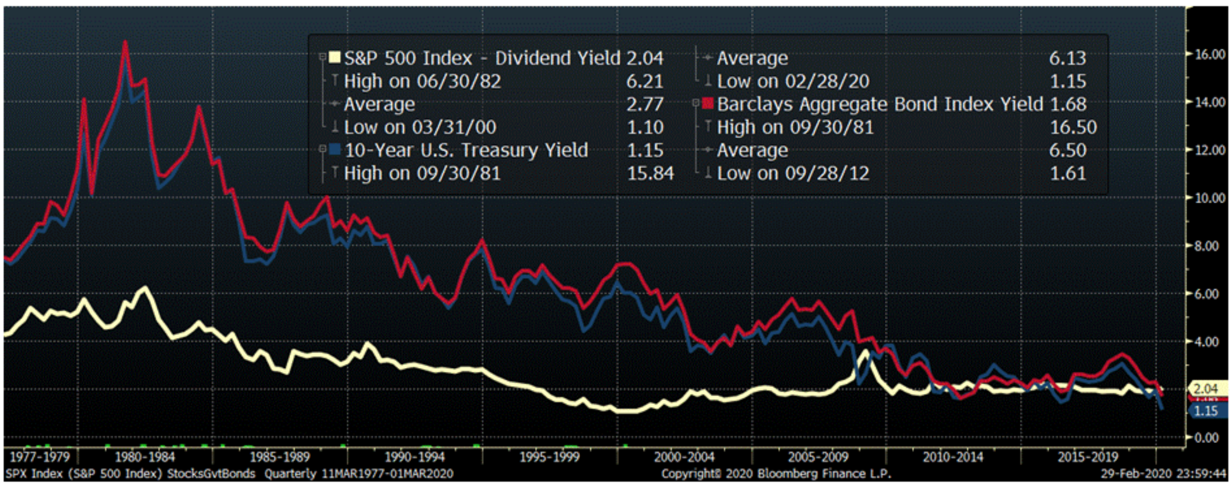
As of 2.28.20. Source: Kovitz Investment Group using Bloomberg and Ned Davis Research Events & Reaction Dates

History is filled with plenty of disconcerting events, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

Not without some severe bruising, of course, but we and the companies in which we are invested will get through COVID-19, and we note that during all those scary periods, save for early 2009, equities were not nearly as attractive from an income perspective relative to yields on fixed income instruments as they are today,…

THE PRUDENT SPECULATOR
Equity vs. Fixed Income Yields

Though stocks are not necessarily a substitute for government or corporate bonds, the current payout on the S&P 500 (2.04%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. And, the comparisons to the average yields for the securities below very much favors equities.



…while dividend payments for stocks, though never guaranteed, have increased over time.

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.

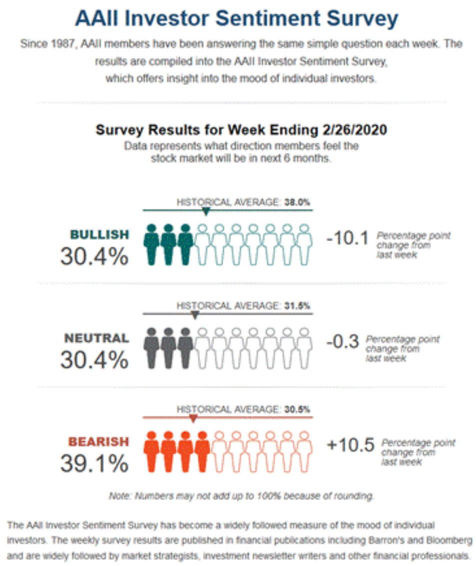
COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2020 (as of 2.20.20)	93	1	0	0
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
Source: Standard & Poor's.				

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$66.15
2020 (Est.)	$63.01
2019	$58.69
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
Source: Bloomberg. As of 2.28.20	

Yes, with the interconnectedness of the world and the rapid spread of the illness around the globe, COVID-19 is different, but no two scary events are the same and the massive drop last week definitely discounted a lot of bad news still to come, while it certainly helped relieve any excess investor optimism.

THE PRUDENT SPECULATOR
Sentiment: Saying and Doing

The latest Sentiment Survey of AAII members showed a big spike in Bearishness to 39.1%, well above the historical average.



After two weeks of inflows, the exodus out of U.S. stocks resumed as folks sold domestic equity exchange traded and mutual funds in the latest week, per ICI data, though the love affair with bonds continues.

Combined Estimated Long-Term Fund Flows and ETF Net Issuance
Millions of dollars

Week Ended	2/19/2020	2/12/2020	2/5/2020	1/29/2020	1/22/2020
Total Equity	276	7,597	12,902	-9,154	2,332
Domestic	-3,256	4,357	5,875	-12,571	-3,449
World	3,532	3,240	7,028	3,416	5,781
Hybrid	202	409	406	24	474
Total Bond	14,889	19,113	13,670	13,355	16,047
Taxable	12,246	15,859	10,681	10,166	12,958
Municipal	2,643	3,253	2,989	3,189	3,089
Commodities	841	541	832	696	1,348
Total	16,208	27,659	27,810	4,920	20,201

Source: Investment Company Institute

In our broadly diversified managed accounts, we generally did a little nibbling on a couple of our new recommendations on Friday and we will continue to put money to work, especially if the downturn carries further. We will also look to take advantage of opportunities to realize tax losses and consolidate existing holdings in sectors and industries that have been battered. Speaking of which, we've put together a diversified listing of 25 of the hardest-hit names since the S&P 500 reached an all-time high less than two weeks ago.

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THE PRUDENT SPECULATOR
Market of Stocks: Down Big Since 2.19.20

15%+ Losers Since S&P 500 Peak On 2.19.20

Symbol	Common Stock	TR % Since 2.19.20	2.28.20 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Market Cap
AAPL	Apple	-15.5	$273.36	$339.88	Technology Hardware	21.6	4.5	13.4	55.5	14.1	5.2	112%	1.1%	1,196,081
ALK	Alaska Air Group	-22.6	$50.46	$91.59	Transportation	7.8	0.7	2.7	19.0	4.4	16.5	119%	3.0%	6,202
AXAHY	AXA SA	-15.5	$23.09	$38.15	Insurance	8.0	nmf	nmf	2.3	nmf	nmf	nmf	5.3%	55,829
BAC	Bank of America	-17.9	$28.50	$44.24	Banks	9.7	nmf	1.5	10.7	nmf	nmf	nmf	2.5%	248,763
BHP	BHP Group Ltd	-15.8	$43.31	$63.01	Materials	11.6	2.4	nmf	19.1	nmf	9.3	nmf	6.6%	102,021
C	Citigroup	-18.7	$63.46	$108.62	Banks	8.4	nmf	0.9	10.3	nmf	nmf	nmf	3.2%	133,678
CMA	Comerica	-16.4	$52.64	$97.30	Banks	6.7	nmf	1.1	16.1	nmf	nmf	nmf	5.2%	7,440
COF	Capital One Financial	-15.2	$88.26	$134.41	Diversified Financials	7.3	nmf	1.1	10.3	nmf	nmf	nmf	1.8%	40,346
CVS	CVS Health	-17.6	$59.18	$108.76	Health Care Equip/Srvcs	8.4	0.3	nmf	10.9	8.3	13.5	nmf	3.4%	77,180
DAL	Delta Air Lines	-21.2	$46.13	$78.88	Transportation	6.3	0.6	71.3	32.8	4.8	11.6	3422%	3.5%	29,528
DIS	Walt Disney	-16.7	$117.65	$164.12	Media & Entertainment	21.2	2.8	nmf	14.8	16.7	0.7	nmf	1.5%	212,410
FITB	Fifth Third Bancorp	-17.7	$24.40	$41.93	Banks	8.8	nmf	1.2	14.0	nmf	nmf	nmf	3.9%	17,298
GT	Goodyear Tire	-15.4	$9.69	$20.01	Autos & Components	9.0	0.2	0.6	-6.7	4.8	19.0	149%	6.6%	2,253
HFC	HollyFrontier	-20.7	$33.68	$67.33	Energy	6.9	0.3	1.9	13.0	4.0	22.2	96%	4.2%	5,452
INTC	Intel	-17.3	$55.52	$73.77	Semiconductors	11.4	3.3	5.9	27.6	7.6	6.9	63%	2.4%	237,459
JBL	Jabil Inc	-15.4	$32.05	$52.73	Technology Hardware	10.2	0.2	5.3	10.9	5.0	6.1	285%	1.0%	4,874
JPM	JPMorgan Chase	-15.6	$116.11	$154.77	Banks	11.1	nmf	1.9	14.9	nmf	nmf	nmf	3.1%	356,919
KEY	KeyCorp	-17.1	$16.35	$25.47	Banks	9.1	nmf	1.2	10.7	nmf	nmf	nmf	4.5%	15,858
MAN	ManpowerGroup	-17.9	$75.94	$136.36	Commercial & Pro Services	9.9	0.2	3.7	17.4	5.6	16.8	111%	2.9%	4,464
MET	MetLife	-17.5	$42.72	$78.05	Insurance	7.0	nmf	0.7	10.2	nmf	nmf	nmf	4.1%	39,124
PNC	PNC Financial Services	-17.6	$126.40	$177.04	Banks	11.1	nmf	1.5	11.5	nmf	nmf	nmf	3.6%	54,731
PRU	Prudential Financial	-19.0	$75.45	$134.88	Insurance	6.5	nmf	0.5	7.4	nmf	nmf	nmf	5.8%	29,954
RCL	Royal Caribbean Cruises	-27.6	$80.41	$146.06	Consumer Services	8.4	1.5	1.6	16.1	8.4	4.1	84%	3.9%	16,806
SLB	Schlumberger Ltd	-21.0	$27.09	$61.22	Energy	18.4	1.1	59.8	-33.8	-8.3	9.9	2494%	7.4%	37,605
WRK	Westrock	-17.8	$33.25	$61.70	Materials	8.9	0.5	16.2	7.4	6.5	11.8	1981%	5.6%	8,594

As of 2.28.20. 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

For those interested in the **McKesson** (MCK – $139.86) exchange offer for shares of Change Healthcare (CHNG), as of this writing, we are still planning to tender our holdings in the former to take advantage of the 7% or so premium for the latter that is still likely to exist, though we shall see what sort of volatility in each company's share price ensues this week.

Jason Clark, Chris Quigley and Zach Tart take a look at 4 of our companies that were out with news last week of sufficient importance to trigger a review of their 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/. We are also in the process of posting updated Target Prices to the website.

Food and beverage concern **JM Smucker** (SJM – $102.99) posted earnings per share of $2.35, versus the $2.22 estimate, in fiscal Q3 2020. SJM had sales of $1.97 billion, versus the $1.97 billion estimate. Shares gained 1% on the earnings news amid a challenging week, to say the least, for equities. The full-year adjusted EPS guidance is expected in the range of $8.10 to $8.30. The company also expects free cash flow of around $850 million and a tax rate of 24%.

CEO Mark Smucker commented, "Overall, our third quarter financial results were in line with our expectations as our anticipated decline in net sales was offset by the benefits of our targeted actions to deliver adjusted EPS growth of 4%. These actions include an increased focus on consumer-facing marketing, prioritization of resources and a reduction in discretionary spending…We remain confident in our strategy and are making progress against our growth imperatives. We will continue taking decisive actions to improve performance and remain focused on a clear set of priorities, including prioritizing resources to focus on key growth opportunities including premium pet food, pet snacks, premium coffee and Uncrustables; continuing investments to reinvigorate our brand; enhancing category leadership by strengthening key consumer and customer-facing activities to build competitive advantage; and finally, practicing strict financial discipline. This is all in addition to the leadership searches we have underway. We are actively evaluating candidates for the positions announced in mid-November. We are pleased with the quality of candidates and are confident we will fill these critical positions with leaders who will strengthen our organization. Execution on all of these actions is creating momentum for growth and increasing shareholder value."

While there will continue to be operating headwinds and competitive pressures, we like the diversification SJM adds to our broadly diversified portfolios and think that management's focus on pet foods and healthier franchises will boost the long-term prospects for the company. Shares of SJM have retreated just 1% this year, far better than the average stock, which we think is partially reflective of the intuitive part of our thesis, which is that people need to eat in the U.S., regardless of the macroeconomic picture. SJM sports a forward P/E ratio below 13 and a 3.4% dividend yield, while it ranks well relative to its peers in our proprietary scoring math. Our Target Price is now $138.

Shares of German chemical maker **BASF SE** (BASFY – $14.67) fell 3% after reporting Q4 2019 results, extending the drop since November amid a challenging operating environment. BASF earned $0.17 per share, versus the analyst consensus estimate of $0.16. Revenue totaled $16.3 billion, versus $16.5 billion that analysts were expecting.

CEO Martin Brudermuller said, "Beyond macroeconomic headwinds, BASF's upstream business was suffering from significantly lower cracker margins, driven by oversupplied markets. In addition, our planned turnarounds reduced earnings in our Chemicals segment. Earnings in our Monomers division were negatively impacted by below the term average isocyanate margins. In our Agricultural Solutions segment, the difficult market environment due to weather–extreme weather conditions and distributors' destocking in North America, as well as the trade conflict, negatively impacted sales volume. A good season in South America in the second half of 2019 partially offset this. Overall, Agricultural Solutions, Industrial Solutions and Surface Technologies, considerably increased EBIT before special items. Nutrition & Care slightly improved EBIT before special items compared to the prior year."

Dr. Brudermuller continued, "We want our customers to experience the new BASF. Therefore, we are implementing dedicated strategic measures with full energy, passion and speed to deliver on that promise. We have reshaped our organization and reduced complexity. We streamlined our administration, sharpened the roles of service in the region and are simplifying procedures and processes. Already in 2019, we saw cost-reduction effects in the P&L, and we have received positive feedback from customers on the changes at BASF. We accelerated our excellence program and are on track to achieve the targeted EUR 2 billion annual EBITDA contribution by the end of 2021. We already realized positive EBITDA contributions of EUR 600 million in 2019. The associated costs amount to around EUR 500 million. By the end of 2019, 3,100 of the target 6,000 positions were already reduced globally. By the end of 2020, we expect an EBITDA contribution in the range of EUR 1.3 billion to EUR 1.5 billion. This is a run rate. The associated onetime costs in 2020 are estimated to be around EUR 300 million to EUR 400 million."

While we generally view geographic income diversification as a positive, it hasn't worked well in the past year for BASF and the company's China projects have been adversely impacted by the coronavirus. Management said that China is an important part of the "value chain" and there's not a "clear picture" about the epidemic's impact in the North America and Europe. Difficult operating environments are not unusual in the chemicals biz, so we think management will be able to adapt, while the company expects the average oil price to be $60 (Brent), versus $65 in its previous outlook. We think that BASF produces a valuable range of chemicals that are critical in all macroeconomic environments. In addition, we like BASF's strong free cash flow yield, favorable valuation in our proprietary scoring framework and net current yield of 4.4%. That said, our Target Price has been cut to $25.

Shares of **Foot Locker** (FL – $36.25) fell more than 13% last week from Monday through Thursday. However, the stock bounced back 8% on Friday after the specialty retailer reported fiscal Q4 2020 financial results. Revenue for the period came in at $2.22 billion, versus estimates of $2.25 billion, while adjusted EPS was $1.63, compared to the consensus analyst estimate of $1.58. Same store comparable sales were a bit disappointing, falling 1.6% in the reported quarter.

"While we had leading positions in key on-trend footwear styles, this was not enough to offset softer than expected demand during the compressed holiday season, a very promotional marketplace for apparel, and tougher launch comparisons," said CEO Richard Johnson.

"We took actions during the quarter to manage slower moving items which pressured our gross margin rate more than expected," added CFO Lauren Peters. "Importantly, our ongoing disciplined expense management enabled us to better align our variable expenses with the softer sales trends, while continuing to invest in our key strategic imperatives. Additionally, the early benefits from the investments in our websites and logistics systems, together with our associates' commitment to outstanding customer service, positioned us to produce a single day record volume, with sales exceeding $115 million."

"We built a strong foundation in 2019 and we believe we have the right plan in place to deliver against our long-term financial objectives," continued Mr. Johnson. "We are optimistic about our company's future, and by making progress against our strategic imperatives, we believe we will strengthen our position at the center of sneaker and youth culture and create value for our shareholders."

Investors seemed to welcome Foot Locker's guidance that included low-single-digit comparable sales growth and low-mid single-digit earnings per share growth. Mr. Johnson said the guidance could change depending on the spread of coronavirus, which has hit store traffic in Hong Kong, Singapore and Italy. "Clearly, it's a fluid situation and we've built into the guidance what we know today. It's easy to say that what we know today will be different to what we know tomorrow, right? The situation is changing," he explained on the earnings call.

The company's cash totaled $907 million, while the debt on its balance sheet was $122 million, even after FL bought back 880,000 shares for $35 million during the quarter and paid a quarterly dividend of $0.38 per share. Net cash per Foot Locker share closed the year at $7.50.

"As previously announced, our Board of Directors approved a meaningful dividend increase for the tenth consecutive year, a 5% increase in our quarterly dividend to $0.40 per share" added Ms. Peters. "Combined with the Board's approval of a $275 million capital investment program for 2020, this reflects our Board's confidence in the company's strong financial position and our ability to execute our strategic objectives while continuing to return cash to our shareholders." FL shares now carry a dividend yield of 4.4%.

We continue to believe that the company has several competitive edges, including broad distribution channels, geographic locations, and multiple banners and product categories. We also think FL will continue to benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms. FL trades for 7 times NTM adjusted earnings projections. Our Target Price for FL is now $74.

Shares of **Lowe's Companies** (LOW – $118.20) tumbled more than 13% last week despite the home improvement retailer reporting Q4 earnings per share that beat analyst estimates ($0.94 vs. $0.91). Comparable total company sales grew 2.5% in the quarter, although soft U.S. performance left the top line 80 basis points lower than analyst expectations.

Management cited weak execution related to marketing for Black Friday and unfinished web site transformation for the results. Lowe's continues to work to improve its Canadian operations, closing 34 stores in the quarter, while rationalizing SKUs to eliminate inefficiencies. It has also been in the process of moving its web platform to the Google cloud throughout much of 2019 and expects the project to complete in Q2 2020.

CEO Marvin Ellison commented on the year, "While our e-commerce business is under repair, I'm very pleased with the strength and productivity of our brick-and-mortar stores. There are very few large retailers in America delivering a 2.6% comparable almost exclusively from their brick-and-mortar stores. This underscores the sales productivity improvement of our physical stores and our opportunity to unlock additional growth when Lowes.com sales accelerate. One of the key strategic steps to improving Lowes.com is the transformation of our supply chain. Consequently, we're also investing $1.7 billion in our supply chain over a 5-year period. And in 2019, we opened 3 new bulk distribution facilities in 4 new cross-dock terminals."

EVP of Stores Joseph McFarland detailed the company's process improvements designed to enhance customer service, "Our investments in store process and technology paid off in 2019, driving strong payroll leverage for the fourth quarter and the fiscal year, all while improving our customer service scores by 500 basis points year-to-date. This payroll leverage, combined with improved customer service scores, demonstrates our ability to re-engineer our labor model while advancing the customer experience. We began 2019 with 60% of our payroll hours spent on tasking and 40% spent on service. We ended the year with 48% of payroll hours spent on tasking and 52% serving the customer. This represents a significant step forward in putting associate time back in front of the customers. These advancements will continue to deliver benefits in 2020, and we plan to build on these accomplishments to deliver additional improvements in customer service and drive more efficiency in our stores."

He continued, "In the first half of 2020, we will deploy a centralized return-to-vendor process, which will further reduce tasking, limit product damage and free up additional space in our stores. We will also roll out our new point-of-sale system in the first half of the year. Our previous point-of-sale systems were extremely outdated with an old green screen that was very difficult to navigate. Additionally, our associates had to toggle between multiple systems to sell product. For example, if an associate sold an appliance with home delivery and an extended protection plan, they previously had to interact with as many as 6 systems to complete that transaction. Our new point-of-sale system has a user-friendly touchscreen interface that will bring multiple systems together in one screen. This will greatly simplify the work of our cashiers, driving payroll efficiency by reducing training time and allowing for a much-improved customer experience at checkout."

For all of 2020, management expect a total sales increase of approximately 2.5% to 3%, with an increase in adjusted operating earnings of 8% to 12%. The company also guided toward $5 billion of share repurchases for the year.

We think Lowe's robust professional customer base and ability to allocate capital bode well for shareholders. In addition, we expect the low interest rate environment to support continued discretionary home improvement spending. After the recent pullback, shares trade at 16 times next-12-month earnings estimates, an 11% discount versus the ratio three months ago. We appreciate that the company has paid out a dividend for over 25 years, growing it at nearly 20% per year for the past five years, with the yield now over 2%. Our Target Price for LOW is now $134.