# Market Commentary Monday, March 30, 2020

March 29, 2020

**EXECUTIVE SUMMARY**

Newsletter Trades – Sold ANH
*TPS 642* – April Newsletter Coming by Friday Morning, April 3
Terrific 5 Days – 17th Best Week in S&P 500 History
Volatility – Ups and Downs Part of the Game
COVID-19 – News Not Really Getting Any Better
Econ Data – Awful Statistics and Near-Term Outlook
Washington – Fed and Congress Moving Fast to Shore Up the Financial System and the Economy
Shopping List – 30 Undervalued Higher S&P Credit Rating Stocks
Greedy when Others are Fearful – Insiders are Buying
Stock News – Updates on DAL, ALK, RCL, CCL, MU, TGT & TNP

**Market Review**

A little more housekeeping…as discussed on our *Sales Alert* this past Tuesday, we sold on Thursday 6100 and 1157 shares of **Anworth Asset Mortgage** (ANH – $1.31) respectively held in TPS Portfolio and Buckingham Portfolio at $0.8027. We will use those prices for the closing out of those stocks in our hypothetical Millennium Portfolio and PruFolio.

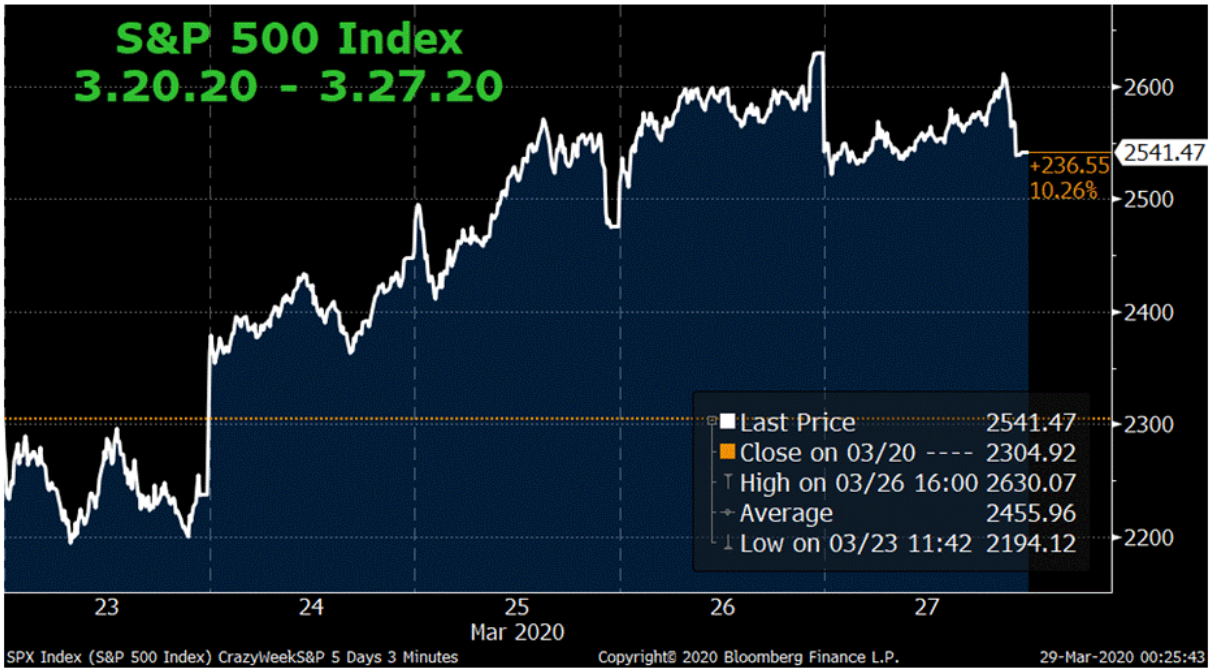
Work will soon be underway on the April edition of *The Prudent Speculator*. If all goes according to plan, we will post *TPS 642* to theprudentspeculator.com no later than Friday morning, April 3. This month, we will offer at least two first-time recommendations and we will endeavor to put the volatility we have been seeing this month into perspective.

Speaking of volatility, rebounding at least for a few days, the equity-market roller-coaster shot higher last week. Indeed, despite a lousy start and end, the major market averages posted double-digit percentage gains for the full five days,…

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Amazing Rebound – Equities Soar

Despite miserable 3% or so losses as bookends, the S&P 500 enjoyed one of its best five-day stretches ever, soaring in price by 10.26%.




…with the S&P 500's advance of 10.26% the 17th best weekly up-move since the 1920s.

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Massive Weekly Moves in the S&P 500

Rare are double-digit percentage weekly moves in the S&P 500 index, but that broad-based market gauge rebounded 10.26% over the five-days ended March 27, 2020, the 17th best showing since 1928.

**Up 10.26%**

| | 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 | 1 | 1 |
| Years Ending in 1 | | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 1 |
| Years Ending in 2 | | 6 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 6 |
| Years Ending in 3 | | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 3 |
| 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 | 2 | 0 | | 3 |
| Years Ending in 9 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | | 2 |
| Totals | 0 | 12 | 0 | 0 | 0 | 1 | 0 | 0 | 3 | 0 | 1 | 17 |

*From 12.31.27 though 03.27.20. Weeks of index price return gains of more than 10.26%. SOURCE: Kovitz Investment Group using data from Bloomberg*

**Down 10.26%**

| | 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 | 1 | 0 | 2 | 4 |
| Years Ending in 1 | | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | | 2 |
| Years Ending in 2 | | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 4 |
| 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 | | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | | 2 |
| 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 | 7 | 1 | 0 | 0 | 0 | 1 | 0 | 3 | 0 | 2 | 15 |

*From 12.31.27 though 03.27.20. Weeks of index price return drops of more than 10.26%. SOURCE: Kovitz Investment Group using data from Bloomberg*

Incredibly, there was a massive rally from Tuesday through Thursday in the S&P 500 of more than 17.5%, the best three-day stretch since 1933, according to S&P Dow Jones Indices, and the 15th advance of that magnitude without a subsequent drop of 17.5% or greater since the launch of *The Prudent Speculator* 43 years ago this month.

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Not Quite a New S&P 500 Bull Market

**S&P 500 Moves (on a Closing Basis) of 17.5% Without a Comparable Move in the Opposite Direction**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 9/16/1929 | 10/29/1929 | -35.88% | BEAR | 2/20/1928 | 9/16/1929 | 87.97% | BULL |
| 10/31/1929 | 11/13/1929 | -26.87% | BEAR | 10/29/1929 | 10/31/1929 | 18.21% | BULL |
| 4/10/1930 | 12/16/1930 | -44.29% | BEAR | 11/13/1929 | 4/10/1930 | 46.77% | BULL |
| 2/24/1931 | 6/2/1931 | -32.86% | BEAR | 12/16/1930 | 2/24/1931 | 25.83% | BULL |
| 6/26/1931 | 10/5/1931 | -42.54% | BEAR | 6/2/1931 | 6/26/1931 | 25.82% | BULL |
| 11/9/1931 | 1/5/1932 | -34.46% | BEAR | 10/5/1931 | 11/9/1931 | 30.61% | BULL |
| 1/15/1932 | 6/1/1932 | -50.67% | BEAR | 1/5/1932 | 1/15/1932 | 18.15% | BULL |
| 9/7/1932 | 10/10/1932 | -31.04% | BEAR | 6/1/1932 | 9/7/1932 | 111.59% | BULL |
| 11/11/1932 | 2/27/1933 | -27.99% | BEAR | 10/10/1932 | 11/11/1932 | 19.63% | BULL |
| 7/18/1933 | 10/19/1933 | -29.43% | BEAR | 2/27/1933 | 7/18/1933 | 120.61% | BULL |
| 2/6/1934 | 3/14/1935 | -31.81% | BEAR | 10/19/1933 | 2/6/1934 | 37.28% | BULL |
| 3/10/1937 | 11/24/1937 | -45.53% | BEAR | 3/14/1935 | 3/10/1937 | 131.64% | BULL |
| 1/11/1938 | 3/31/1938 | -28.87% | BEAR | 11/24/1937 | 1/11/1938 | 17.50% | BULL |
| 11/9/1938 | 4/11/1939 | -24.44% | BEAR | 3/31/1938 | 11/9/1938 | 62.24% | BULL |
| 10/25/1939 | 6/10/1940 | -31.95% | BEAR | 4/11/1939 | 10/25/1939 | 26.78% | BULL |
| 11/7/1940 | 4/28/1942 | -34.42% | BEAR | 6/10/1940 | 11/7/1940 | 26.70% | BULL |
| 5/29/1946 | 5/19/1947 | -28.47% | BEAR | 4/28/1942 | 5/29/1946 | 157.70% | BULL |
| 6/15/1948 | 6/13/1949 | -20.57% | BEAR | 5/19/1947 | 6/15/1948 | 23.89% | BULL |
| 8/2/1956 | 10/22/1957 | -21.63% | BEAR | 6/13/1949 | 8/2/1956 | 267.08% | BULL |
| 12/12/1961 | 6/26/1962 | -27.97% | BEAR | 10/22/1957 | 12/12/1961 | 86.35% | BULL |
| 2/9/1966 | 10/7/1966 | -22.18% | BEAR | 6/26/1962 | 2/9/1966 | 79.78% | BULL |
| 11/29/1968 | 5/26/1970 | -36.06% | BEAR | 10/7/1966 | 11/29/1968 | 48.05% | BULL |
| 1/11/1973 | 10/3/1974 | -48.20% | BEAR | 5/26/1970 | 1/11/1973 | 73.53% | BULL |
| 9/21/1976 | 3/6/1978 | -19.41% | BEAR | 10/3/1974 | 9/21/1976 | 73.14% | BULL |
| 11/28/1980 | 8/12/1982 | -27.11% | BEAR | 3/6/1978 | 9/12/1978 | 23.12% | BULL |
| 8/25/1987 | 12/4/1987 | -33.51% | BEAR | 8/12/1982 | 8/25/1987 | 228.81% | BULL |
| 7/16/1990 | 10/11/1990 | -19.92% | BEAR | 12/4/1987 | 7/16/1990 | 64.77% | BULL |
| 7/17/1998 | 8/31/1998 | -19.34% | BEAR | 10/11/1990 | 8/28/1991 | 34.24% | BULL |
| 3/24/2000 | 4/4/2001 | -27.77% | BEAR | 8/31/1998 | 3/24/2000 | 59.56% | BULL |
| 5/21/2001 | 9/21/2001 | -26.43% | BEAR | 4/4/2001 | 5/21/2001 | 19.00% | BULL |
| 1/4/2002 | 7/23/2002 | -31.97% | BEAR | 9/21/2001 | 1/4/2002 | 21.40% | BULL |
| 8/22/2002 | 10/9/2002 | -19.31% | BEAR | 7/23/2002 | 8/22/2002 | 20.68% | BULL |
| 10/9/2007 | 10/27/2008 | -45.76% | BEAR | 10/9/2002 | 10/9/2007 | 101.50% | BULL |
| 11/4/2008 | 11/20/2008 | -25.19% | BEAR | 10/27/2008 | 11/4/2008 | 18.47% | BULL |
| 1/6/2009 | 3/9/2009 | -27.62% | BEAR | 11/20/2008 | 1/6/2009 | 24.22% | BULL |
| 4/29/2011 | 10/3/2011 | -19.39% | BEAR | 3/9/2009 | 4/29/2011 | 101.56% | BULL |
| 9/20/2018 | 12/24/2018 | -19.78% | BEAR | 10/3/2011 | 9/20/2018 | 166.62% | BULL |
| 2/19/2020 | 3/23/2020 | -33.92% | BEAR | 12/24/2018 | 2/19/2020 | 44.02% | BULL |
| | | | | 3/23/2020 | 3/26/2020 | 17.55% | BULL |
| | Average Drop | -30.38% | BEAR | | Average Increase | 65.70% | BULL |

While the financial media on March 26, 2020, was quick to proclaim the start of a new Bull Market, given that the Dow Jones Industrial Average (thanks in no small part to a massive rebound in shares of Boeing) had advanced 21.3% over the three days since its nadir on March 23, the broad-based S&P 500 managed a more modest gain of 17.55%, the fourth increase of that amount or greater without an intervening 17.5% loss since the end of the Financial Crisis.

No doubt, these remain highly unusual times, to say the least, with the speed of the market gyrations virtually unprecedented, though we know that ups and downs are the price folks have had to pay to achieve long-term investment success.

AFAM
a KOVITZ division

# 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% | 113.3% | 1008 | 26 | 3.5 | 3/9/2009 | 2/19/2020 |
| 17.5% | 65.7% | 566 | 39 | 2.4 | 3/23/2020 | 3/26/2020 |
| 15.0% | 65.6% | 551 | 45 | 2.0 | 3/23/2020 | 3/26/2020 |
| 12.5% | 43.7% | 331 | 72 | 1.3 | 3/23/2020 | 3/26/2020 |
| 10.0% | 34.5% | 242 | 98 | 0.9 | 3/23/2020 | 3/26/2020 |
| 7.5% | 23.4% | 147 | 156 | 0.6 | 3/23/2020 | 3/26/2020 |
| 5.0% | 14.7% | 73 | 301 | 0.3 | 3/23/2020 | 3/26/2020 |

**Declining Markets**

| Minimum Decline % | Average Loss | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
|---|---|---|---|---|---|---|
| -20.0% | -35.4% | 286 | 26 | 3.5 | 2/19/2020 | 3/23/2020 |
| -17.5% | -30.4% | 217 | 38 | 2.4 | 2/19/2020 | 3/23/2020 |
| -15.0% | -28.4% | 189 | 44 | 2.1 | 2/19/2020 | 3/23/2020 |
| -12.5% | -22.8% | 138 | 71 | 1.3 | 2/19/2020 | 3/23/2020 |
| -10.0% | -19.6% | 102 | 97 | 0.9 | 2/19/2020 | 3/23/2020 |
| -7.5% | -15.5% | 65 | 155 | 0.6 | 3/13/2020 | 3/23/2020 |
| -5.0% | -11.0% | 37 | 301 | 0.4 | 3/13/2020 | 3/23/2020 |

From 02.20.28 through 03.26.20. 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**

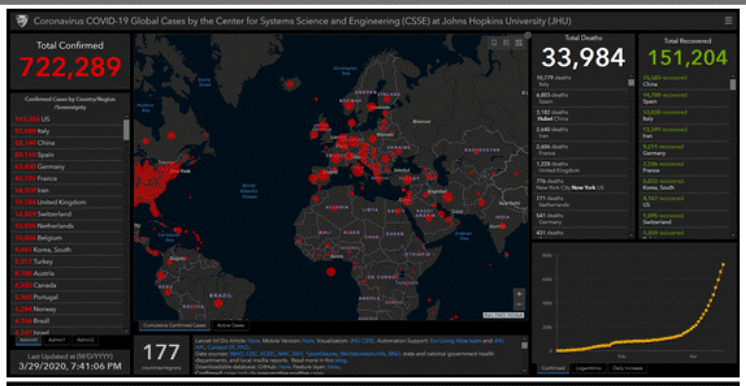
| | Annualized Return | Standard Deviation |
|---|---|---|
| Value Stocks | 13.2% | 25.8% |
| Growth Stocks | 9.5% | 21.4% |
| Dividend Paying Stocks | 10.6% | 18.0% |
| Non-Dividend Paying Stocks | 8.8% | 29.4% |
| Long-Term Corporate Bonds | 6.1% | 7.6% |
| Long-Term Gov't Bonds | 5.5% | 8.5% |
| Intermediate Gov't Bonds | 5.1% | 4.3% |
| Treasury Bills | 3.3% | 0.9% |
| Inflation | 2.9% | 1.8% |

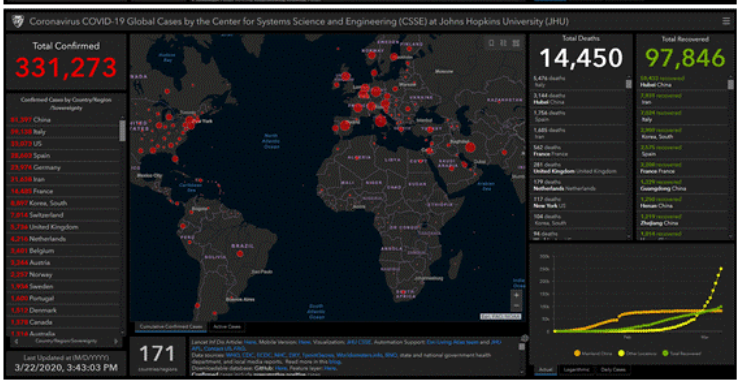
From 06.30.27 through 12.31.19. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

Of course, we are very much aware that further downside action is possible (the equity futures are pointing to a rough start to the new trading week), especially as the coronavirus news is likely to continue to get worse before it gets better, especially here in the U.S.,…

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## COVID-19's Global Spread




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

Sadly, Covid-19 confirmed cases and deaths continue to rise around the world, with the U.S. now leading in the number of those infected. The mortality count will move markedly higher in the days and weeks to come, but so too will the number of recoveries, while new diagnoses and deaths, per *Worldometer,* have leveled off the past couple of days in hard-hit Italy and Spain.

…with Dr. Anthony Fauci of the White House's coronavirus task force stating on Sunday, "Whenever the models come in, they give a worst-case scenario and a best-case scenario. Generally, the reality is somewhere in the middle. I've never seen a model of the diseases that I've dealt with where the worst case actually came out. They always overshoot…I mean, looking at what we're seeing now, you know, I would say between 100 and 200,000 (deaths). But I don't want to be held to that…the U.S. is going to have millions of cases."

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Death is a Fact of Life

Certainly, the 100,000 to 200,000 COVID-19 deaths in the U.S. now expected by Dr. Anthony Fauci of the White House's coronavirus task force would be far worse without the unprecedented social distancing and stay-at-home edicts in place, but it will be interesting to see how the disease impacts the overall mortality statistics.

**Data table for Figure 2. Number of deaths, percentage of total deaths, and age-adjusted death rates for all causes and the 10 leading causes of death in 2018: United States, 2017 and 2018**

| Rank[1] | Cause of death (based on *International Classification of Diseases, 10th Revision* [ICD–10]) | | 2017 Number | 2017 Percent | 2017 Rate[2] | 2018 Number | 2018 Percent | 2018 Rate[2] |
|---|---|---|---|---|---|---|---|---|
| … | All causes | | 2,813,503 | 100.0 | 731.9 | 2,839,205 | 100.0 | 723.6 |
| 1 | Diseases of heart | (I00–I09,I11,I13,I20–I51) | 647,457 | 23.0 | 165.0 | 655,381 | 23.1 | 163.6 |
| 2 | Malignant neoplasms | (C00–C97) | 599,108 | 21.3 | 152.5 | 599,274 | 21.1 | 149.1 |
| 3 | Accidents (unintentional injuries) | (V01–X59,Y85–Y86) | 169,936 | 6.0 | 49.4 | 167,127 | 5.9 | 48.0 |
| 4 | Chronic lower respiratory diseases | (J40–J47) | 160,201 | 5.7 | 40.9 | 159,486 | 5.6 | 39.7 |
| 5 | Cerebrovascular diseases | (I60–I69) | 146,383 | 5.2 | 37.6 | 147,810 | 5.2 | 37.1 |
| 6 | Alzheimer disease | (G30) | 121,404 | 4.3 | 31.0 | 122,019 | 4.3 | 30.5 |
| 7 | Diabetes mellitus | (E10–E14) | 83,564 | 3.0 | 21.5 | 84,946 | 3.0 | 21.4 |
| 8 | Influenza and pneumonia | (J09–J18) | 55,672 | 2.0 | 14.3 | 59,120 | 2.1 | 14.9 |
| 9 | Nephritis, nephrotic syndrome and nephrosis | (N00–N07,N17–N19,N25–N27) | 50,633 | 1.8 | 13.0 | 51,386 | 1.8 | 12.9 |
| 10 | Intentional self-harm (suicide) | (*U03,X60–X84,Y87.0) | 47,173 | 1.7 | 14.0 | 48,344 | 1.7 | 14.2 |
| … | All other causes | (residual) | 731,972 | 26.0 | … | 744,312 | 26.2 | … |

… Category not applicable.
* Code not included in ICD–10.
[1]Based on number of deaths.
[2]Deaths per 100,000 U.S. standard population.
SOURCE: NCHS, National Vital Statistics System, Mortality.

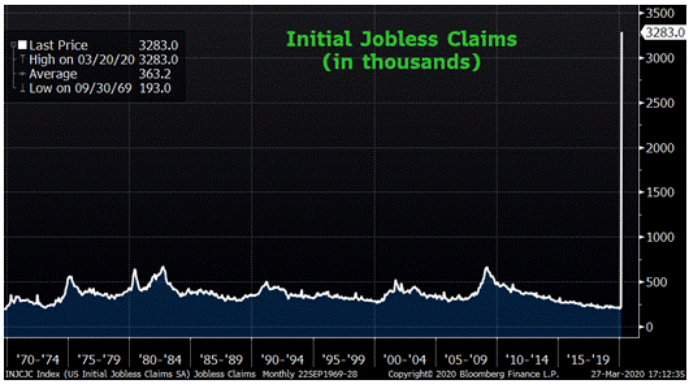
Data Brief 355. Mortality in the United States, 2018

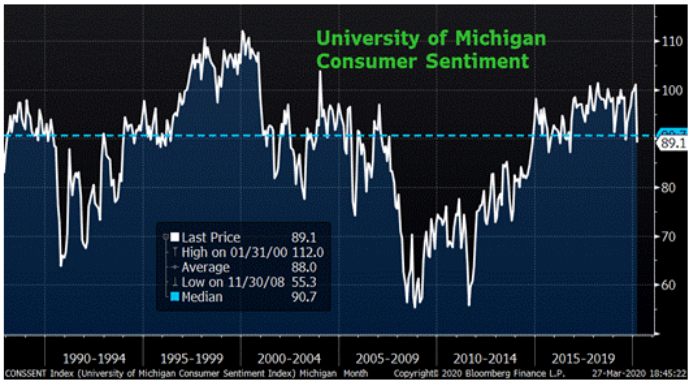
Obviously, wealth is less important than health, and we hope that readers are keeping safe. We are adjusting to the new normal (happily, our local supermarket had toilet paper, paper towels and a full assortment of meat this weekend, though only 25 shoppers were allowed in at a time and social distancing was very much practiced), with the California and Chicago Kovitz teams fairly effective in teleworking.

That said, we realize that many cannot work from home and entire industries have been devastated as a result of the widespread economic shutdown, with the magnitude of the impact now beginning to come into focus.

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Stunningly Bad Economic Numbers




We knew the number would be awful, but the coronavirus-related virtual shutdown of the U.S. economy led to a spike to 3.28 million in initial filings for unemployment benefits for the week ended March 21, nearly five times the previous record high. Meanwhile, consumer sentiment for March, per the University of Michigan, plunged to 89.1, skidding from a reading of 101.0 in February to the lowest level since 2016.

To be sure, the economic stats will continue to deteriorate, with forecasters like the Organisation for Economic Co-operation and Development (OECD) scrambling to update estimates for the scope of the near-term global contraction.

***The increasing spread of the coronavirus across countries has prompted many governments to introduce unprecedented measures to contain the epidemic. These are priority measures that are imposed by a sanitary situation, which leave little room for other options as health should remain the primary concern. These measures have led to many businesses being shutdown temporarily, widespread restrictions on travel and mobility, financial market turmoil, an erosion of confidence and heighted uncertainty.***

***In a rapidly changing environment, it is extremely difficult to quantify the exact magnitude of the impact of these measures on GDP growth, but is clear that they imply sharp contractions in the level of output, household spending, corporate investment and international trade. This note provides illustrative estimates of the initial direct impact of shutdowns, based on an analysis of sectoral output and consumption patterns across countries and an assumption of common effects within each sector and spending category in all countries.***

- ***This approach suggests that the initial direct impact of the shutdowns could be a decline in the level of output of between one-fifth to one-quarter in many economies, with consumers' expenditure potentially dropping by around one-third. Changes of this magnitude would far outweigh anything experienced during the global financial crisis in 2008-09. This broad estimate only covers the initial direct impact in the sectors involved and does not take into account any additional indirect impacts that may arise.***

***These are only the initial impacts on the level of output. The implications for annual GDP growth will depend on many factors, including the magnitude and duration of national shutdowns, the extent of reduced demand for goods and services in other parts of the economy, and the speed at which significant fiscal and monetary policy support takes effect. Nonetheless, it is clear that the impact of the shutdowns will weaken short-term growth prospects substantially.***

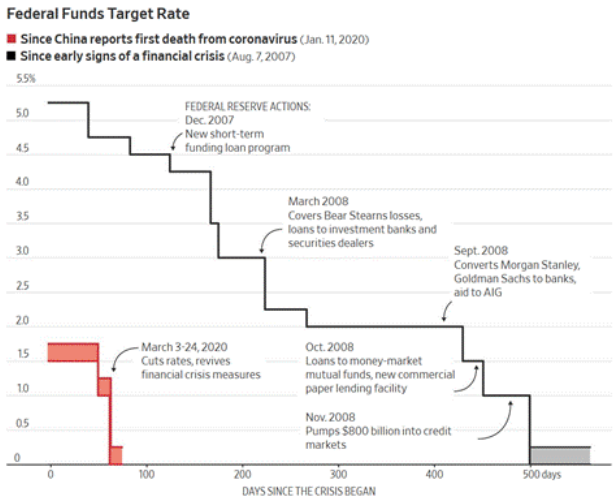
- ***The scale of the estimated decline in the level of output is such that it is equivalent to a decline in annual GDP growth of up to 2 percentage points for each month that strict containment measures. If the shutdown continued for three months, with no offsetting factors, annual GDP growth could be between 4-6 percentage points lower than it otherwise might have been.***

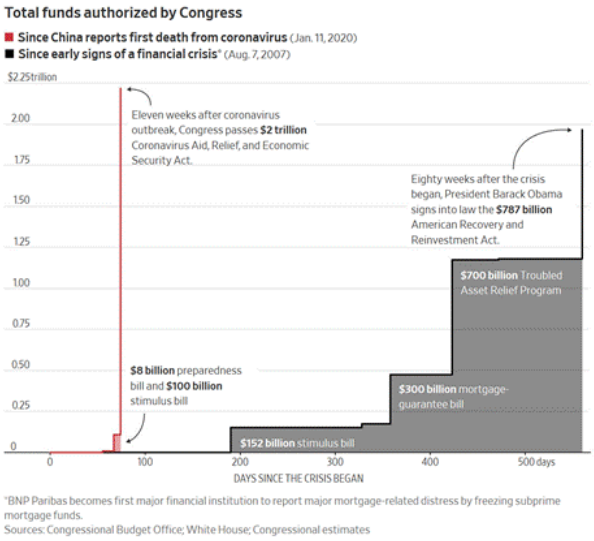
Clearly, the short-term outlook for much of Corporate America is brutal, with the White House on Sunday stating that the national social distancing guidelines will be extended until April 30, but the response from Washington on the economic front has been incredibly rapid and massive,…

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Washington's Incredibly Swift Response

As *The Wall Street Journal* reported, "The Fed and Congress sped up the response to the coronavirus pandemic using strategies tested a decade ago in the financial crisis, while a united GOP and less concern for the deficit smoothed way for $2 trillion legislation."




…with the Federal Reserve slashing interest rates and deploying more than a few emergency lending programs over the past two weeks to ensure that the financial system continues to function, while Congress just passed a $2 trillion stimulus package to help keep people and businesses afloat.

Fed Chair Jerome H. Powell commented on Thursday on *NBC's Today Show*, "The Federal Reserve is working hard to support you now. Our policies will be very important when the recovery does come to make that recovery as strong as possible…We may well be in a recession. But I would point to the difference between this and a normal recession. There is nothing fundamentally wrong with our economy. Quite the contrary. We are starting from a very strong position…The virus is going to dictate the timetable. The sooner we get through this period and get this virus under control, the sooner the recovery can come."

For his part, Treasury Secretary Steven Mnuchin stated on Friday that he expects the economy to rebound strongly, perhaps with as much as a 5% GDP expansion in the fourth quarter, reiterating that the government is working at "lightning speed" to provide support, while proclaiming, "This is a war. We're going to spend what it takes to protect the American people."

We appreciate the fast action out of Washington and we continue to balance the Warren Buffett admonition, "Only buy something that you'd be perfectly happy to hold if the market shut down

for 10 years," with the understanding that the companies in which we are invested need to make it through to the proverbial other side. Our focus thus remains on looking for consolidation opportunities and new names to pick up, given that more than a few babies have been thrown out with the bath water, all while incorporating new coronavirus developments, the impact of the gigantic stimulus package and evolving credit quality and financial liquidity considerations.

Not an easy task to be sure, but on that last score, we have put together a diversified listing of 30 of our recommendations, all of which had going into the current mess a rating assigned by Standard & Poor's to the long term obligations of the issuer of at least "A-" where "AAA" is the best rank. Yes, we remember that General Electric had once been a AAA-credit, while many rankings are under review or have already been downgraded, so an S&P credit rating definitely is not the only data point to consider! Note that 54 of our 121 newsletter recommendations have a S&P LT Credit Rating of "A-" or better, while the remainder either have no rating or a rating of "B" or better.

AFAM a KOVITZ division

## THE PRUDENT SPECULATOR
## Favorable S&P Credit Ratings

### Solid S&P Credit Ratings

| Symbol | Common Stock | S&P LT Credit Rtg | TR % Since 02.19.20 | 3.27.20 Price | Target Price | Industry Group | P/E | P/S | P/TBV | ROCE | EV/ EBITDA | FCF Yld | Debt/ TE (%) | Div Yld | Market Cap |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GD | General Dynamics | A | -28.6 | $130.07 | $239.55 | Aerospace & Defense | 10.9 | 1.0 | nmf | 27.5 | 8.7 | 5.3 | nmf | 3.4% | 37,672 |
| JPM | JPMorgan Chase | A- | -28.6 | $91.13 | $144.91 | Banks | 8.7 | nmf | 1.5 | 14.9 | nmf | nmf | nmf | 4.0% | 280,131 |
| PNC | PNC Financial Services | A- | -32.9 | $100.13 | $162.40 | Banks | 8.8 | nmf | 1.1 | 11.0 | nmf | nmf | nmf | 4.6% | 42,928 |
| BAC | Bank of America | A- | -34.1 | $21.60 | $39.61 | Banks | 7.3 | nmf | 1.1 | 10.7 | nmf | nmf | nmf | 3.3% | 188,455 |
| GILD | Gilead Sciences | A | 10.8 | $72.85 | $96.30 | Biotechnology | 11.0 | 4.1 | 19.9 | 24.5 | 15.6 | 9.0 | 492% | 3.7% | 92,056 |
| AMGN | Amgen | A- | -11.0 | $198.27 | $254.91 | Biotechnology | 13.4 | 5.0 | nmf | 70.7 | 11.5 | 7.1 | nmf | 3.2% | 116,941 |
| CSCO | Cisco Systems | AA- | -12.3 | $38.82 | $59.00 | Communications Equip | 12.1 | 3.2 | nmf | 29.0 | 9.5 | 8.9 | nmf | 3.7% | 164,631 |
| PNW | Pinnacle West Capital | A- | -21.9 | $77.63 | $105.37 | Electric Utilities | 16.2 | 2.5 | 1.7 | 10.1 | 10.5 | -2.7 | 95% | 4.0% | 8,729 |
| ETN | Eaton Corp PLC | A- | -24.3 | $74.54 | $101.90 | Electrical Equipment | 13.0 | 1.4 | nmf | 13.7 | 9.9 | 9.2 | nmf | 3.9% | 30,669 |
| DIS | Walt Disney | A | -25.4 | $96.40 | $146.01 | Entertainment | 17.3 | 2.3 | nmf | 14.8 | 14.4 | 0.9 | nmf | 1.8% | 174,044 |
| WMT | Walmart | AA | -6.3 | $109.58 | $135.18 | Food & Staples Retailing | 22.2 | 0.6 | 7.1 | 20.2 | 11.1 | 4.7 | 147% | 2.0% | 310,361 |
| ADM | Archer-Daniels-Midland | A | -21.6 | $33.50 | $56.01 | Food Products | 10.3 | 0.3 | 1.4 | 7.2 | 10.6 | -33.2 | 62% | 4.3% | 18,666 |
| MDT | Medtronic PLC | A | -18.7 | $89.89 | $119.64 | Health Care Eqp/Supplies | 16.2 | 3.9 | nmf | 10.5 | 14.7 | 5.5 | nmf | 2.4% | 120,468 |
| ABT | Abbott Laboratories | A- | -15.2 | $74.56 | $94.20 | Health Care Eqp/Supplies | 23.0 | 4.1 | nmf | 12.0 | 18.7 | 3.4 | nmf | 1.9% | 131,482 |
| MMM | 3M Co | A+ | -14.5 | $133.24 | $187.00 | Industrial Conglomerates | 14.9 | 2.4 | nmf | 46.0 | 11.8 | 7.0 | nmf | 4.4% | 76,693 |
| PRU | Prudential Financial | A | -41.3 | $53.04 | $124.11 | Insurance | 4.5 | nmf | 0.4 | 7.4 | nmf | nmf | nmf | 8.3% | 21,057 |
| GOOG | Alphabet Cl C | AA+ | -23.9 | $1,110.71 | $1,639.94 | Interactive Media/Srvcs | 20.4 | 4.7 | 4.3 | 18.1 | 13.8 | 4.0 | 8% | 0.0% | 763,230 |
| IBM | Int't Business Machines | A | -25.2 | $108.03 | $184.34 | IT Services | 8.4 | 1.2 | nmf | 50.1 | 8.8 | 13.0 | nmf | 6.0% | 95,975 |
| DE | Deere & Co | A | -15.7 | $135.11 | $188.99 | Machinery | 13.5 | 1.1 | 5.6 | 28.1 | 6.1 | 2.3 | 399% | 2.3% | 42,373 |
| CMI | Cummins Inc | A+ | -19.0 | $131.66 | $183.05 | Machinery | 8.9 | 0.8 | 3.8 | 30.4 | 6.2 | 12.1 | 37% | 4.0% | 19,785 |
| TGT | Target Corp | A | -18.2 | $94.74 | $126.91 | Multiline Retail | 14.8 | 0.6 | 4.3 | 28.4 | 8.1 | 8.5 | 122% | 2.8% | 47,461 |
| XOM | Exxon Mobil | AA | -35.7 | $36.95 | $64.20 | Integrated Oil | 16.5 | 0.6 | 0.8 | 7.5 | 6.7 | 3.4 | 16% | 9.4% | 156,379 |
| MRK | Merck & Co | AA- | -9.6 | $71.73 | $98.38 | Pharmaceuticals | 13.8 | 3.9 | nmf | 37.4 | 12.8 | 5.4 | nmf | 3.4% | 181,927 |
| JNJ | Johnson & Johnson | AAA | -14.5 | $123.16 | $155.46 | Pharmaceuticals | 14.2 | 4.0 | nmf | 25.4 | 12.2 | 6.1 | nmf | 3.1% | 324,693 |
| LRCX | Lam Research | A- | -21.6 | $241.22 | $336.11 | Semiconductors | 16.6 | 3.7 | 13.0 | 40.7 | 12.9 | 6.6 | 144% | 1.9% | 35,109 |
| QCOM | Qualcomm | A- | -23.3 | $66.59 | $102.12 | Semiconductors | 19.9 | 3.1 | nmf | 104.4 | 8.6 | 8.7 | nmf | 3.9% | 76,115 |
| INTC | Intel | A+ | -17.2 | $52.37 | $71.39 | Semiconductors | 10.7 | 3.1 | 5.5 | 27.6 | 7.2 | 7.4 | 63% | 2.5% | 223,986 |
| ORCL | Oracle | A+ | -8.9 | $49.83 | $63.05 | Software | 13.0 | 4.0 | nmf | 56.7 | 10.7 | 7.5 | nmf | 1.9% | 157,143 |
| MSFT | Microsoft | AAA | -16.6 | $149.70 | $185.63 | Software | 27.7 | 8.5 | 18.7 | 43.8 | 17.3 | 3.5 | 130% | 1.4% | 1,138,625 |
| AAPL | Apple | AA+ | -20.1 | $247.74 | $326.22 | Technology Hardware | 19.6 | 4.0 | 12.1 | 55.5 | 12.7 | 5.7 | 112% | 1.2% | 1,083,981 |

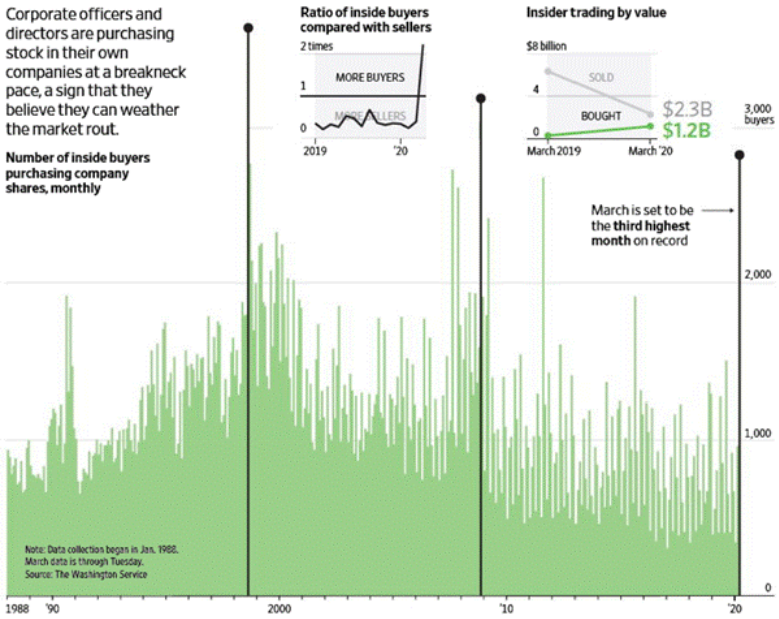
As of 3.27.20. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

We know that it has been a tough slog over the last month and we respect that the faith of even those with nerves of steel has been sorely tested, but those who share our long-term, three-to-five-year-or-longer time horizon should take some comfort in the fact that corporate insiders seemingly are remembering to be greedy when others are fearful.

AFAM
a KOVITZ division

# THE PRUDENT SPECULATOR
## Insiders are Buying

THE WALL STREET JOURNAL.




*More than 2,800 executives and directors have purchased nearly $1.19 billion in company stock since the beginning of March. That's the third-highest level on both an individual and dollar basis since 1988, according to the Washington Service, which provides data analytics about trading activity by insiders.*

*WSJ* – March 26, 2020

**Stock Updates**

To be sure, company-specific news is very much overshadowed by market, economic and health-related headlines, but Jason Clark, Chris Quigley and Zach Tart take a look at several of our companies that posted quarterly results or had updates out last week. 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/.

The massive $2 trillion stimulus bill passed on Friday includes $25 billion in grants and and a similar amount in loans to passenger carrier airlines, though not every company is likely to take all of the aid as there are strings attached, including potential equity-like interests in the businesses for Uncle Sam. The grants are expected to cover payrolls over the next six months, as current traffic for the industry is down 80-90% from pre-crisis levels of 2.5 million passengers per day, according to lobbying group Airlines for America.

Despite the available relief, CEO of **Delta Airlines** (DAL – $29.55) Ed Bastion has remarked that the package was not "a cure" as the industry strives to downsize and urges workers to take voluntary unpaid leave. Grants are not without restriction, either, as airlines must agree not to furlough employees until the end of September, while maintaining service deemed essential by

the Transportation Department, such as to rural communities and to carry health-care supplies. More details of the arrangement are expected over the next week to ten days.

In a memo to employees on March 20, Mr. Bastion projected June quarter revenues to be down by $10 billion compared to a year ago (an 80% reduction) and detailed plans to draw down $3 billion under existing revolving credit facilities, which has now occurred, to fortify DAL's cash position in the coming weeks and months as the company burns through roughly $50 million in cash each day. As to be expected, Delta has immediately suspended all share repurchases and the Board of Directors has voted to suspend future dividend payments.

For its part, **Alaska Air Group** (ALK – $29.87) also slashed its schedule, canceled its share buybacks and suspended its dividend. "Alaska's goal, since the onset of this outbreak, has been to keep our employees and guests safe and healthy, and to ensure that our airline is here to support and serve them in the future," said CEO Brad Tilden. "But we also know that given the lack of demand for air travel and profound impact on the financial management of our business, hard work and aggressive control of costs and cash are required, even with additional support."

The near term will be particularly trying for investors in capital intensive travel businesses in general, and for airlines in particular, but we remain patient and believe that demand could bounce back rather qu0ickly as fear from COVID-19 eventually dissipates. That said, we remain vigilant in monitoring the terms of government aid as details are released in the coming days.

As we speculated last week and despite President Trump's previous remarks that hinted in favor of aid, cruise operators were left out of the stimulus package. The companies' incorporation, registration of vessels and sourcing of a significant portion of employment outside of the U.S. were cited as reasons for withholding aid, but the cruise operators were already operating as if no bailout was coming.

In a press release last Wednesday, **Royal Caribbean Cruises Ltd.** (RCL – $34.50) declared that it would extend the suspension of sailings and expects a return to service on May 12, 2020. Because of announced port closures, RCL expects to return to service for Alaska, Canada and New England sailings July 1, 2020. The company also borrowed $2.2 billion due in 364-days to fund short-term working capital requirements and corporate expenses. Loans were backed by trademarks and 100% equity interests in certain vessel-owning subsidiaries, while entities affiliated with two directors of the company, Eyal Ofer and Arne Alexander Wilhelmsen, each purchased a participation interest equal to $100 million in the loans. Interest will accrue at LIBOR plus a margin of 2.25% which increases to 2.50% and 2.75%, 180 days and 365 days, respectively, after the Funding Date, with a requirement to pay a duration fee equal to 0.25% of principal outstanding every 60 days.

RCL also explained that its liquidity position now sits at $3.6 billion and that it has secured financing for all newly constructed ships on order. "This is a period of unprecedented disruption for the cruise industry," said CEO Jason T. Liberty. "We continue to take decisive actions to protect the company's financial and liquidity positions as they enable us to keep focused on our guests, our crew and our long-term plans." At this point, a cut to the dividend appears very likely, even as the company significantly curbs its spending in the near-term.

**Carnival Corp** (CCL – $14.41) is said to be in talks with its advisors to raise between $5 and $7 billion in some combination of convertible debt and/or common equity. This is in addition to the $3 billion we mentioned last week that it drew on its credit facilities. We would obviously view dilution of our interests in Carnival negatively. However, we continue to weigh the prospects of potential dilution to the extent that it enhances the company's survival chances against possible upside assuming normal operating conditions eventually come back into play given our estimate of the company's fair value. As of March 13, Carnival has halted all sailings through April 30, 2020, and the company indicated another update will be coming today.

Our Target Prices and continued ownership of the airlines and cruise operators is fluid at this point, though we note that the overall weighting in our portfolios is now very small, so the risk from here of continuing to hold is diminished, while all four of the aforementioned stocks have bounced significantly off of their 52-week lows.

Memory maker **Micron Technology** (MU – $43.48) posted earnings per share of $0.45, versus the $0.36 estimate, in fiscal Q2 2020. MU had total revenue of $4.8 billion, versus the $4.7 billion estimate. While shares remain down 20% this year, they have rebounded handsomely from the low near $31 in March, as factories in China are resuming work.

CEO Sanjay Mehrotra said on the earnings call, "The emergence of the COVID-19 pandemic has created both operational challenges and macroeconomic concerns. Micron has more than 37,000 team members in 18 countries around the world. Since the earliest signs of the outbreak in China, we have taken proactive measures to safeguard our employees. Where possible, Micron employees are working from home, and we have suspended all local and international business travel globally. We implemented health screenings at all Micron locations. We were among the first in the industry to implement physical separation protocols at all our manufacturing sites globally to mitigate the risk of community spread with blue teams and red teams that operate on alternate schedules. We have been requiring self-declaration and self-quarantine measures as this crisis has spread, whereby team members, contractors and their immediate families observe 14 days of work from home after any air or sea travel. As of yesterday, we have 2 employees who have tested positive for the novel coronavirus and are receiving appropriate medical attention. At the 2 sites where we have confirmed cases, we have used contact tracing to quarantine individuals who were in close contact with either infected team member. We have also implemented more restrictive controls of on-site access, social distancing and service protocols. As a result of stringent preventative measures in place, these events have not impacted our manufacturing operations thus far. We have also taken measures to protect our raw material supply and increase our supply chain flexibility."

Mr. Mehrotra continued, "As COVID-19 spreads, we are complying with all government orders at our global sites. These orders may result in a temporary or prolonged shutdown of our sites, which could impact our shipments this quarter. Turning now to COVID-19's effect on demand. COVID-19 is significantly impacting China's economic growth in the calendar first quarter, reflected in the sharp decline of smartphone and automobile unit sales. Weaker sell-through of consumer electronics and our customers' factory shutdowns in China were headwinds for us late in our fiscal second quarter. In China, lower consumer demand was offset by stronger data center demand due to increased gaming, e-commerce and remote work activity. Looking to the third

quarter, as these trends also take shape worldwide, data center demand in all regions look strong and is leading to supply shortages. In addition, we are seeing a recent increase in demand for notebooks used in the commercial and educational segments to support work from home and virtual learning initiatives occurring in many parts of the world. We are also encouraged to see manufacturers in China increasingly returning to full production, and we have recently started to see China smartphone manufacturing volumes recover. Nevertheless, as the world deals with the outbreak of COVID-19, we expect that overall demand for smartphones, consumer electronics and automobiles will be below our prior expectations for the second half of our fiscal 2020. Once the U.S. and other major economies have demonstrated containment of the virus's spread, we expect a rebound in economic activity."

CFO Dave Zinsner added, "Notwithstanding the near-term uncertainty, we are pleased with Micron's financial execution exiting this cyclical downturn. F Q2 revenue was approximately 65% higher and gross margins 11 percentage points higher than in the prior trough, which occurred in F Q3 of 2016. This revenue growth far outpaced the growth of the overall semiconductor industry in this period. As we assess our cross-cycle performance from the last trough to this trough, we have delivered average returns as follows: gross margins of more than 40%, EBITDA margins of 50%, CapEx to revenue in the 30s and return on invested capital exceeding 20%. While the near-term business environment is uncertain, we believe that long-term demand trends for Micron remain robust. Our focus on execution, our strong product portfolio and our solid balance sheet ensure that Micron is in the best position to capitalize on the secular trends driving our business."

MU finished the quarter with approximately $2.1 billion in net cash and $1.2 billion available in a revolver maturing in 2024, giving the company flexibility to adapt as market dynamics change. Unlike most other companies who have pulled back guidance, Micron actually offered a Q3 outlook. The company expects revenue between $4.6 billion and $5.2 billion, with a wide EPS range between $0.40 and $0.70. The company's gross margin should come in between 29.5% and 32.5%. While the short term offers plenty of uncertainty for virtually all companies, we believe that focus on the longer term remains critical, especially for Micron. The company has a strong balance sheet and reasonable valuation metrics. Our Target Price for MU is $63.

Unlike the overall equity markets, shares of general merchandise discount store chain **Target** (TGT – $94.74) fell almost 3% last week after the company announced that it was pulling its forward guidance, though we would argue that the information shouldn't have been a surprise to anyone. While management said there has been unusually strong foot-traffic and usage of its same day pick-up services, purchases had been heavily focused on essential items like food, medicine, cleaning products and pantry stock-up items. Beginning in mid-March, Target said it experienced an even stronger surge in traffic and sales, with category mix heavily concentrated in the Essentials and Food & Beverage categories. Around that time, strength also emerged within the portions of Hardlines that support in-home activities, including Home Office and Entertainment, while performance softened meaningfully in Apparel & Accessories. Month-to-date in March, overall comparable sales are more than 20% above last year, with comparable sales in Essentials and Food & Beverage up more than 50%. During that same period, comparable sales in Apparel & Accessories are down more than 20% compared with last year. While Target has maintained its low everyday prices during this period, stronger-than-anticipated

quarter-to-date sales have led to gross margin dollar growth ahead of prior expectations. However, continued sales declines in higher-margin discretionary categories could result in lower-than-expected gross margin dollar performance for the remainder of the quarter.

Target CEO Brian Cornell commented, "We are prioritizing the work that's in front of us to support our team, store operations and supply chain as families across the country rely on Target for everything they need in this challenging environment. I want to thank our entire team for their efforts, which have been nothing short of heroic. Over the past few weeks, we've experienced an unprecedented surge in traffic and sales, as guests rely on our stores and same-day services. Ensuring we can take care of our team and deliver for the millions of guests who are counting on us remains our top priority."

"During these unprecedented times, the benefits of our strong balance sheet and diverse, multi-category assortment are particularly important," said CFO Michael Fiddelke. "With the best team in retail focused on serving our guests, and ample financial capacity to navigate a highly uncertain outlook, we are confident that Target will emerge from the current environment with an even stronger guest relationship and continue to operate from a position of financial strength."

Target shares had a fantastic 2019, but are down more than 26% in 2020. While the current situation is unprecedented and still holds a lot of questions, Target seems to be one of the handful of retailers that has benefited from vastly increased purchases in some areas of its business. We think the shares are attractively priced and the 2.8% dividend yield is both desirable and we believe maintainable. Like other retailers, Target could continue to endure some brisk near-term headwinds in some of its higher margin products if the coronavirus scare continues to grow, but we think that the economy should be able to make a solid bounceback in due time and much improved company-wide execution will ultimately pay dividends. Our Target Price for TGT shares currently stands at $127.

Though shares of **Tsakos Energy Navigation Ltd.** (TNP – $3.20) had been on a sharp downward trend since the beginning of 2020, falling to an all-time low of $1.74, the oil tanker operator saw a massive recovery of more than 85% last week on the back of an overall stronger equity market and management commentary from its Q4 financial results. The company announced that current tanker rates are very firm even as oil prices have plummeted, that long-term market fundamentals are still favorable and that it was initiating a $50 million stock buyback. While $50 million may not seem like a lot to many, that amount currently represents 17% of the shipper's market cap, though the repurchase also includes the company's preferred stock.

While Q4 results fell well short of the average estimates of the three analysts that Bloomberg shows as covering the company, Q4 2019 was a material improvement over Q4 of 2018. Profits for the quarter of $40.7 million, before non-cash impairment charges, compared to $2.8 million before non-cash impairment charges for the equivalent quarter in 2018. Net income for the fourth quarter of 2019 came in at $13.1 million, compared to a net loss of $63.1 million in the same quarter of 2018. This substantial and material improvement in fourth quarter net income results was mostly due to gross revenues increasing by $21.6 million, 14.1% above the 2018 fourth

quarter, with an almost identical number of vessels in the fleet, elevating total voyage revenues to $175.4 million for the quarter.

The increase in revenue was due to a greatly improved crude tanker market during the quarter, in which 16 vessels operating in spot trades enjoyed the strongest rates seen in the last five years, as oil demand strengthened and oil supplies increased, especially from the U.S, while growth of the global fleet continued its downward trend. Moreover, vessels on time charter with profit sharing provisions began to see significant income over and above their applicable minimum rates helping the average daily TCE per vessel in the fleet to reach $25,576, a 19.3% increase from the fourth quarter of 2018. TNP's fleet of 65 operating vessels achieved high utilization rates, averaging 98.4%, with only one vessel in dry-dock for just part of the quarter.

Management said that with oil prices collapsing the demand for inventory build-up and transportation services is booming. TNP with its flexible employment model is taking advantage of that to the full. The increasing floating storage of oil and the developing contango following the precipitous decline in the price of crude, has led to a reduction in fleet capacity which should assist in maintaining the strong rates currently in evidence. "As the impact of the coronavirus is being felt around the globe, TNP's business model is able not only to sustain such shocks, but also profit from them as well. Our long-established strategy of providing downside protection and upside potential is working well and we remain confident that we will continue taking advantage of the strong freight environment while offering investors healthy returns," said COO Mr. George Saroglou.

"With significant cash flow visibility, a healthy balance sheet and favorable industry fundamentals, like the continuously low orderbook, we remain confident that once the panic selling stops TNP will be ascribed a valuation that it merits and deserves. In the meantime, management top priority is to maintain the good health of its seafarers and onshore employees and wishes all good health in these challenging times," Mr. Saroglou concluded.

There is no doubt that being invested in TNP shares over the last few years hasn't been smooth sailing. That said, we are encouraged by the firm's priority to control debt and pursue conservative chartering structures that cover fixed costs with upside through profit sharing. Shares offer a dividend yield of 3.1%. Considering current tanker rates, fleet utilization and the potential of the announced share buyback, we have lifted our Target Price to $5.70.