Market Commentary Monday, November 2, 2020

November 1, 2020

EXECUTIVE SUMMARY

TPS 649 – November Newsletter Coming on Wednesday Evening
Fool's Errand – Explaining Short-Term Market Movement Rationale
GDP – Fantastic Q3 Rebound in U.S. Economic Growth
Tech Heavyweights – Great Q3 Numbers, But…
Week in Review – 96th Worst Trading Week Since 1928
Health News – COVID-19 Cases Rising
Econ Update – Solid Numbers
Historical Perspective – Stocks Have Overcome All Sorts of Headwinds
Sentiment – Still Not Much Optimism
Election – Our Vote is to Stay the Course, no Matter the Winner
Q3 Earnings – 85% Beating the Street
Interest Rates – Low Yields on Competing Investments Favor Dividend-Paying Stocks
Target Prices – Updated Listing Coming to theprudentspeculator.com
Stock News – Updates on AAPL, GOOG, MSFT, BHE, COHU, JNPR, MDC, MMM, CAT, CMI, INT, ADM & GT

Market Review

Work is underway on the November edition of *The Prudent Speculator*. This month, we have one first-time recommendation, while our *Graphic Detail* feature looks at Seasonality as we head into the historically best performing six months of the year, as well as the Presidential Cycle. We plan to publish *TPS 649* on Wednesday evening, November 4.

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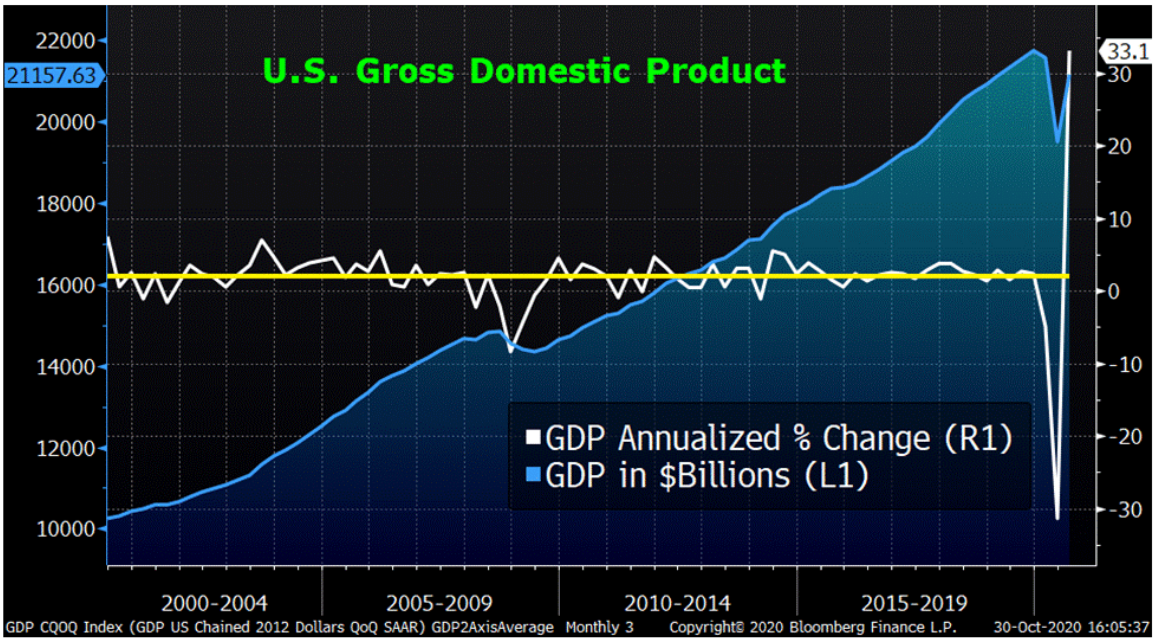
Certainly, it was a tumultuous five days of trading, but there was more interesting market analysis this past week, courtesy of *The New York Times*. Friday's edition told us that equities rallied on Thursday (the one day they were higher) because "U.S. gross domestic product soared to a widely predicted record bounce that helped trigger stock buying on Wall Street."

THE PRUDENT SPECULATOR

RECORD BREAKING REBOUND IN Q3 U.S. GDP

Third quarter real (inflation-adjusted) domestic economic growth came in better-than-expected at a phenomenal 33.1% rate on an annualized basis, even as the current-dollar GDP figure of $21.2 trillion is still several percentage points below that posted in Q4 2019.



Not sure why stocks would rally if the 33.1% annualized GDP growth number was “widely predicted” as the efficient-market hypothesis states that asset prices reflect all available information. Of course, the tally actually was modestly better than expectations, with the massive Q3 economic rebound part of the reason, in our view, that Value stocks have fared better than Growth over the last two months,…

VALUE STOCKS HAVE OUTPERFORMED COMING OUT OF RECESSION

U.S. Recession Trough (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Recession Trough Date	1 Year Post S&P 500 TR	1 Year Post FF Value TR	1 Year Post FF Growth TR	3 Year Post S&P 500 TR	3 Year Post FF Value TR	3 Year Post FF Growth TR	5 Year Post S&P 500 TR	5 Year Post FF Value TR	5 Year Post FF Growth TR
Mar-33	81.5%	88.7%	82.9%	155.7%	135.3%	169.1%	62.4%	69.5%	96.2%
Jun-38	-1.7%	-14.5%	2.7%	0.8%	4.6%	14.5%	43.9%	129.3%	65.5%
Oct-45	-7.2%	-2.2%	-6.8%	14.7%	26.6%	-1.3%	64.8%	76.2%	38.5%
Oct-49	35.1%	43.8%	29.9%	92.8%	96.5%	66.3%	177.8%	174.6%	131.2%
May-54	36.1%	60.2%	34.4%	83.7%	95.5%	69.4%	145.2%	200.3%	143.0%
Apr-58	37.2%	61.0%	51.4%	66.4%	94.4%	86.4%	89.9%	128.4%	84.1%
Feb-61	13.6%	16.9%	8.6%	35.2%	49.1%	12.1%	68.4%	137.0%	55.6%
Nov-70	11.2%	11.0%	20.5%	20.6%	13.5%	-0.7%	25.1%	44.4%	1.5%
Mar-75	28.3%	51.5%	31.3%	22.1%	98.6%	44.4%	55.6%	157.8%	96.9%
Jul-80	13.0%	22.9%	22.8%	56.1%	113.6%	69.7%	100.5%	207.7%	75.2%
Nov-82	25.6%	39.8%	21.1%	66.8%	99.7%	36.4%	103.0%	123.9%	38.2%
Mar-91	11.0%	25.5%	16.7%	29.8%	73.2%	25.8%	98.0%	154.7%	82.9%
Nov-01	-16.5%	-11.9%	-18.5%	8.4%	39.8%	13.7%	34.3%	93.7%	33.5%
Jun-09	14.4%	25.5%	14.7%	57.7%	53.2%	62.3%	136.9%	158.2%	140.8%
Averages	**20.1%**	**29.9%**	**22.3%**	**50.8%**	**71.0%**	**47.7%**	**86.1%**	**132.6%**	**77.4%**

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

…even as there are no awards for red ink, with the Russell 3000 Value index off 3.6% since the end of August, compared to a skid of 7.6% for the Russell 3000 Growth index.

Valuation and Return Comparisons

Company	Ticker	Div Yield	P/E Ratio	Price to Book Value	Price to Sales	NTM P/E Ratio	Market Cap ($ millions)	Russell 3000 Weight	One Day Return	One Week Return	Return Since 8.31.20	Return Since 12.31.19
Four Nasdaq Horsemen												
Apple	AAPL	0.7	33.4	28.3	6.9	27.6	$1.85 Trillion	5.41%	-5.60	-5.37	-15.64	49.31
Amazon.com	AMZN	-	88.9	18.3	4.4	53.6	$1.52 Trillion	3.97%	-5.45	-5.25	-12.02	64.31
Alphabet	GOOG	-	30.0	6.4	9.5	23.3	$1.09 Trillion	2.97%	3.43	-1.22	-0.81	21.24
Facebook	FB	-	34.2	5.1	6.4	24.5	$749 Billion	1.95%	-6.31	-7.61	-10.26	28.19
Other Undervalued Large Russell 3000 Members												
Johnson & Johnson	JNJ	2.9	20.5	5.6	4.5	15.5	$361 Billion	1.11%	-0.06	-5.60	-10.63	-4.10
JPMorgan Chase	JPM	3.7	12.4	1.2	2.2	11.3	$296 Billion	0.91%	0.90	-5.56	-1.26	-27.10
Verizon Comm	VZ	4.3	11.9	3.6	1.8	11.5	$235 Billion	0.73%	0.41	-1.67	-2.83	-3.11
Comcast	CMCSA	2.1	17.2	2.2	1.9	14.9	$197 Billion	0.59%	-1.90	-6.26	-5.25	-3.95
Intel	INTC	2.9	9.4	2.4	2.4	9.6	$181 Billion	0.58%	0.39	-8.13	-13.09	-24.73
Cisco Systems	CSCO	4.0	12.6	4.0	3.1	11.4	$151 Billion	0.47%	0.59	-7.52	-14.18	-22.61

As of 10.30.20. Source Kovitz using data from Bloomberg

Index	Ticker	Div Yield	P/E Ratio	Price to Book Value	Price to Sales	NTM P/E Ratio	One Day Return	One Week Return	Return Since 8.31.20	Return Since 12.31.19
S&P 500	SPX	1.8	25.5	3.7	2.5	24.2	-1.20	-5.62	-6.36	2.76
Russell 3000	RAY	1.7	28.9	3.5	2.3	26.5	-1.35	-5.72	-5.72	3.13
R3K Value	RAV	2.7	21.4	2.0	1.5	21.3	-0.17	-5.55	-3.60	-13.15
R3K Growth	RAG	0.8	42.1	10.6	4.3	34.1	-2.40	-5.88	-7.59	19.11
S&P 500 Value	SVX	3.0	18.9	2.0	1.4	19.1	-0.10	-5.58	-4.35	-13.24
S&P 500 Pure Value	SPXPV	3.2	18.0	0.9	0.5	21.1	0.41	-6.09	-2.08	-26.24

As of 10.30.20. Source Kovitz using data from Bloomberg

One day or even two months does not a trend make, but some of the largest stocks (and biggest YTD winners) have pulled back, while Value stocks have won the returns race (or the lack thereof) since the end of August.

And speaking of efficient markets, that same *Times* article went on to say about Thursday's rebound, "The S&P 500 rallied partly on bets for strong earnings from mega-caps." Indeed, that thinking was spot on as four of the five largest companies in the S&P 500 (**Apple** (AAPL – $108.86), Amazon.com, **Alphabet** (GOOG – $1621.01) and Facebook) reported fantastic Q3 results after the close of trading on Thursday. A separate *New York Times* story proclaimed, "Tech Giants Continue Their Surge Ahead of the Rest of the Economy."

The *Times* analysis made perfect sense…until the market opened on Friday, and three of those four stocks, as illustrated in the chart above, saw massive reductions in their market capitalizations, each with one-day plunges of more than 5%. Readers know well that we own Apple and Google (our updated thinking is below), and that we don't own Amazon and Facebook. As such, for one day anyway, we were sad, happy, happy and happy with Friday's market reactions to the stellar results from the four heretofore superstar performers.

However, we were more pleased to see one of the best relative days for Value stocks in a long time, with the Russell 3000 Value index outperforming its Growth counterpart by 223 basis points, even as Friday capped the worst week overall for U.S. equities since March. The Dow Jones Industrial Average bore the worst of the selling for the week, skidding 6.5% on a total return basis, while the Russell 3000 and S&P 500 indexes each dropped more than 5.6%.

THE PRUDENT SPECULATOR

BIG WEEKLY PLUNGE IN THE S&P 500

Rare are weekly moves of more than 5% in the S&P 500 index, but that broad-based market gauge stumbled 5.63% on a price basis over the five-days ended October 30, 2020, the 96th worst showing since 1928.

Up >=5.63%

	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		1	1	0	0	1	1	0	3	0	2	7
Years Ending in 1		4	0	0	0	0	1	0	1	2		8
Years Ending in 2		9	0	0	1	0	3	0	1	0		14
Years Ending in 3		11	0	0	0	0	0	0	1	0		12
Years Ending in 4		3	0	0	0	3	1	0	0	0		7
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	1	0	0		3
Years Ending in 8	1	7	1	0	0	0	0	1	2	0		12
Years Ending in 9	4	1	0	0	0	0	0	1	5	0		11
Totals	5	37	2	0	1	4	7	3	13	2	2	74

From 1.13.28 through 10.30.20. Weeks of index price increases of more than 5.63%. SOURCE: Kovitz using data from Bloomberg

Down >=5.63%

	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		5	2	1	0	1	1	0	2	1	4	13
Years Ending in 1		6	2	0	0	0	0	0	2	2		12
Years Ending in 2		11	0	0	2	0	0	0	2	0		15
Years Ending in 3		7	0	0	0	0	0	0	0	0		7
Years Ending in 4		2	0	0	0	4	0	0	0	0		6
Years Ending in 5		0	0	0	0	0	0	0	0	1		1
Years Ending in 6		1	0	0	0	0	1	0	0	1		3
Years Ending in 7		6	0	0	0	0	3	0	0	0		9
Years Ending in 8	1	6	1	0	0	1	0	0	5	2		16
Years Ending in 9	5	4	0	0	0	1	1	1	2	0		14
Totals	6	48	5	1	2	7	6	1	13	7	4	96

From 1.13.28 through 10.30.20. Weeks of index price decreases of more than 5.63%. SOURCE: Kovitz using data from Bloomberg

While market volatility is part of the game for equity market investors, especially in 2020, with the latest setback marking the sixth separate occasion just this year where the S&P 500 has dropped 5% or more without an intervening 5% rebound,…

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VOLATILITY IS NOT UNUSUAL: 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%	111.3%	977	27	3.4	3/23/2020	9/2/2020
17.5%	66.8%	570	39	2.3	3/23/2020	9/2/2020
15.0%	66.5%	555	45	2.0	3/23/2020	9/2/2020
12.5%	44.3%	333	72	1.3	3/23/2020	9/2/2020
10.0%	34.9%	244	98	0.9	3/23/2020	9/2/2020
7.5%	23.6%	147	157	0.6	9/23/2020	10/12/2020
5.0%	14.7%	72	305	0.3	9/23/2020	10/12/2020

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	156	0.6	9/2/2020	9/23/2020
-5.0%	-10.9%	36	305	0.3	10/12/2020	10/30/2020

From 02.20.28 through 10.30.20. 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 using data from Bloomberg, Morningstar and Ibbotson Associates

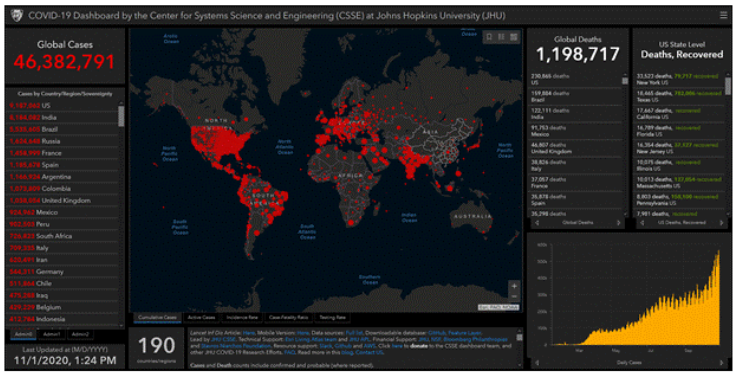
LONG-TERM RETURNS

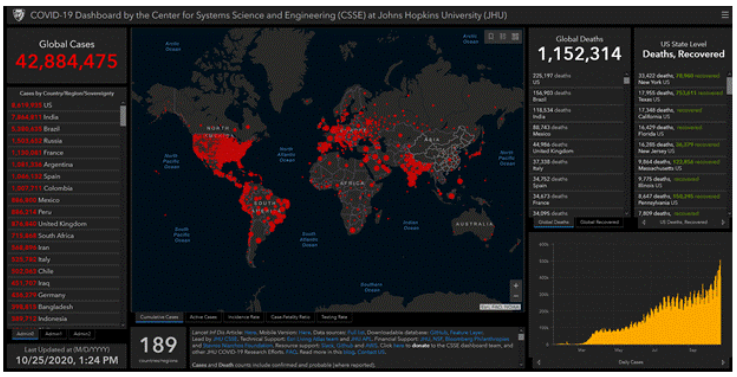
	Annualized Return	Standard Deviation
Value Stocks	12.7%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.5%	18.1%
Non-Dividend Paying Stocks	9.1%	29.4%
Long-Term Corporate Bonds	6.2%	7.6%
Long-Term Gov't Bonds	5.6%	8.6%
Intermediate Gov't Bonds	5.1%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	2.9%	1.8%

From 06.30.27 through 09.30.20. 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 using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…stocks were not helped last week by news on the health front. As *The New York Times*, quickly changing its daily market movement rationale tune, reported in its Saturday edition, "The latest sell-off has come as a second wave of [COVID-19] cases forced more lockdowns in Europe, threatening economic recovery and spooking investors around the world." In the U.S., confirmed COVID-19 cases hit 9 million on Friday with many states posting record numbers of infections and hospitalizations, while Boris Johnson on Saturday announced a new month-long lockdown for England.

COVID-19 GLOBAL SPREAD





https://www.arcgis.com/apps/opsdashboard/index.html#/bda759474ofd4029942346 7b48e9ecf6

With access to testing higher, the weather having turned colder and folks not as careful in month eight or nine of the pandemic as they were back in the spring, there was a jump of 3.5 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 230,000 fatalities. While deaths obviously lag cases, and Europe, the United Kingdom and the U.S. have seen new spikes in those diagnosed with the virus, the weekly increase in the fatality count has ticked up moderately to more than 46,000 from the 40,000 range at which it had been residing, with the "confirmed case" mortality rate continuing to drop.

No doubt, it is difficult to think that coronavirus news will not get worse before it gets better, even as numerous pharmaceutical and biotech companies are making progress on vaccines and therapeutics, so we would not be surprised to see equities remain under pressure in the near term.

Of course, businesses, for the most part, have adapted to the COVID-19 world, while the shock of the global pandemic has lessened as folks have come to better understand and live with the risks. After all, there was still toilet paper and canned goods at the local supermarket this weekend, while the latest batch of domestic economic statistics out last week were fairly upbeat in terms of the health of the consumer,…

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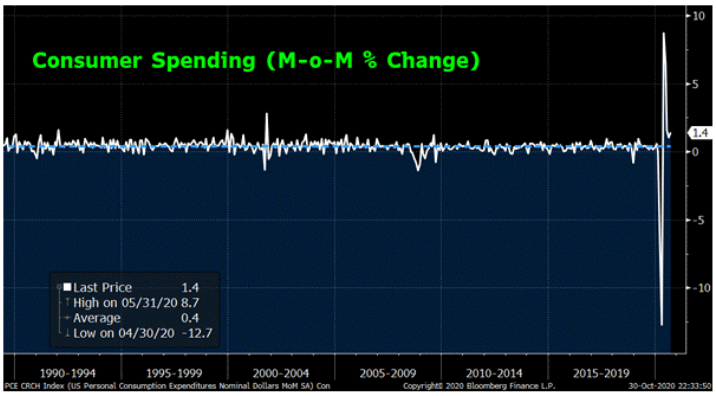
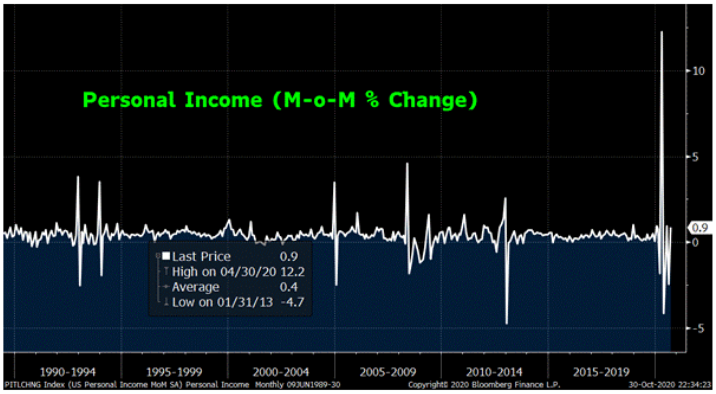
CONSUMERS CONTINUE TO SPEND





With businesses reopened and more folks back to work, consumer spending continued its recovery in September, rising a better-than-expected and robust 1.4%. True, the tally was down considerably from the 6.2% jump in June, but it did represent the fifth straight monthly advance. Shoppers did not have to reach into their savings too much, as personal income rose 0.9% in September and the savings rate stood at a healthy 14.3%.

…and for the state of the manufacturing sector, with even the still-dismal weekly jobless claims tally better than many had been predicting.

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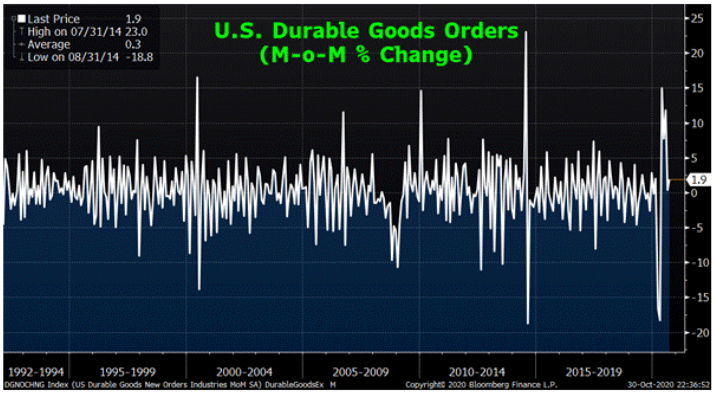
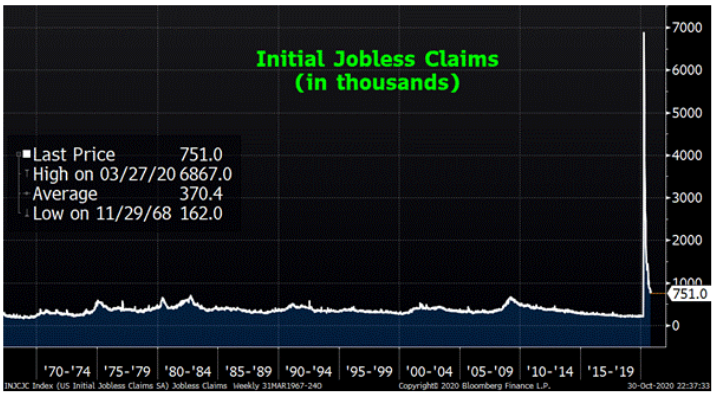
BETTER-THAN-EXPECTED ECONOMIC NUMBERS





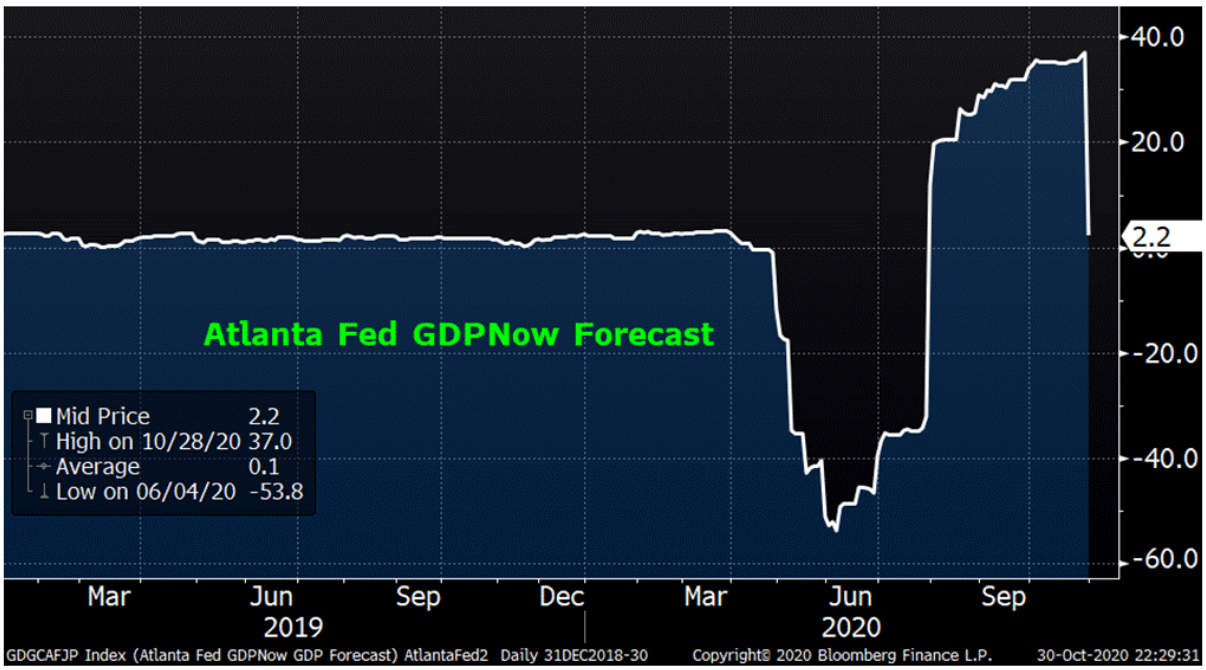
The headline number for durable goods orders in September topped estimates with a gain of 1.9%, the fifth straight monthly increase. Excluding volatile transportation orders, orders also rose a solid 0.8%, with both data points pointing to healthy business investment. That said, first-time filings for unemployment benefits, while showing marked improvement, continue to be massive, with 751,000 claims in the latest week.

Certainly, we do not mean to downplay the dangers of COVID-19, and we respect that the outlook for GDP growth in the current quarter hardly is robust,…

THE PRUDENT SPECULATOR

MODEST U.S. GDP GROWTH EXPECTED IN Q4

While the quarter just completed saw a massive economic expansion, following an epic contraction in Q2, the Atlanta Fed is now projecting a very modest 2.2% increase in GDP in Q4 GDP on an annualized basis.



…but life carries on and stocks in general have always persevered and moved higher in the fullness of time, overcoming health scares,…

THE PRUDENT SPECULATOR

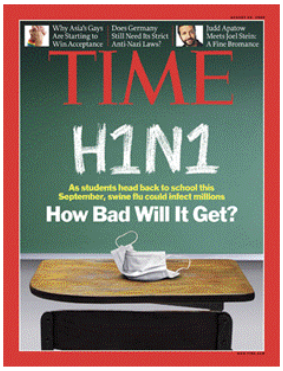
VIRUSUS HAVE YET TO KILL THE STOCK MARKET

September 29, 2014

March 30, 2020

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%	1836%
Time Magazine: The Truth About SARS	5/5/2003	926.55	4%	14%	21%	43%	52%	253%
Time Magazine: Avian Flu Death Threat	9/26/2005	1,215.63	4%	7%	10%	0%	-6%	169%
Time Magazine: H1N1 How Bad Will It Get?	8/24/2009	1,025.57	8%	8%	3%	38%	94%	219%
Bloomberg BusinessWeek: Ebola Is Coming	9/29/2014	1,977.80	6%	4%	-5%	27%	50%	65%
Time Magazine: Coronavirus	3/30/2020	2,626.65	18%	28%				24%
Price Changes Only. Does not Include Dividends								
		Averages:	**6%**	**10%**	**4%**	**31%**	**50%**	**428%**

Source: Kovitz Investment Group using data from Bloomberg. As of 10.30.20



August 24, 2009

September 26, 2005

May 5, 2003

July 4, 1983

…and numerous other disconcerting events.

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LOTS OF FRIGTENING 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%	37572%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	21700%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	19492%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	7574%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	7074%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	8289%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	6013%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	4598%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	3405%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4235%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3448%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	4572%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3008%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3229%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2637%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1920%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1236%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1354%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	934%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	769%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	694%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	638%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	615%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	547%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	273%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	241%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	166%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	144%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	239%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	257%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	200%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	173%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	383%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**4474%**

Time will tell how the COVID-19 Pandemic and Great Lockdown are remembered in terms of equity market disruption and ultimate recovery, but history is filled with plenty of disconcerting events. Happily, those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

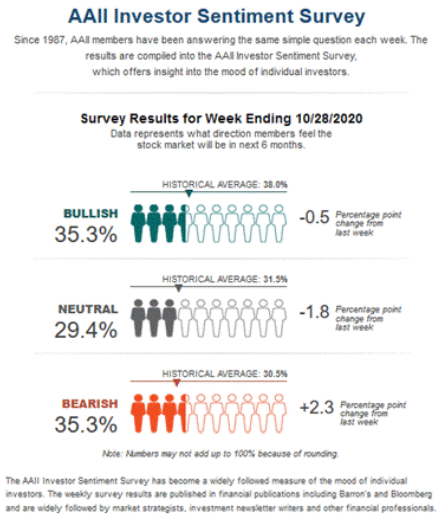
To be sure, we understand that voting for President, Congress and many state and local candidates and issues is now ongoing with tomorrow the actual Election Day, so the level of uncertainty for investors is unusually high these days. As such, there isn't a ton of optimism for stocks,…

THE PRUDENT SPECULATOR

STILL NOT A LOT OF ENTHUSIASM FOR U.S. STOCKS

Folks on Main Street became a bit more pessimistic last week, as the latest AAII Sentiment Survey saw the number of Bulls dip to 2.7 percentage points below normal and the number of Bears rise to 4.8 points above average.

We remain perplexed that many supposed market experts continue to argue that investors are piling into stocks, given that the latest data on mutual and exchange traded fund flows from ICI shows a massive exodus from U.S. stocks and a continued infatuation with bonds.



Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	10/21/2020	10/14/2020	10/7/2020	9/30/2020	9/23/2020
Total Equity	-10,844	-17,598	-15,578	-11,807	-19,267
Domestic	-9,727	-7,202	-16,439	-880	-17,277
World	-1,118	-10,396	860	-10,927	-1,990
Hybrid	-680	-1,003	-2,544	-2,092	-1,711
Total Bond	15,587	20,821	25,021	4,410	5,036
Taxable	13,387	19,392	22,542	3,395	3,572
Municipal	2,200	1,428	2,479	1,015	1,464
Commodities	-1,104	840	668	187	1,355
Total	2,959	3,060	7,568	-9,303	-14,586

Source: Investment Company Institute

…even as equities have proved rewarding over the long term no matter who is in the Oval Office, and market concerns about a Democrat capturing the White House, as the current polls and betting odds suggest will be the case, or even a Democratic sweep of Congress, are not supported by historical data.

The current polls suggest a sizable lead for the Biden/Harris ticket in the race for the White House. Of course, market history (albeit not that many data points) suggests that a Democrat in the Oval Office is good for stocks and that a complete "D" sweep would bode very well for Value.

PARTIES IN POWER & ANNUALIZED RETURNS

Conceding that there are not a lot of data points from which to draw grand conclusions, stocks seem to like the letter D better than R.

Pres Pty	Con Pty	Div Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
D	R	14.8%	10.1%	15.6%	9.9%	15.0%	10.4%
D	D	14.1%	20.7%	20.6%	16.5%	12.9%	24.0%
D	S	15.3%	15.3%	14.5%	14.9%	15.6%	14.3%
R	R	-2.2%	-7.7%	-2.4%	-4.2%	-2.0%	-4.9%
R	D	9.8%	2.2%	10.7%	6.7%	9.5%	6.4%
R	S	6.7%	-3.5%	10.7%	1.9%	5.8%	5.4%
D Pres		**14.3%**	**18.0%**	**19.0%**	**14.9%**	**13.5%**	**20.3%**
R Pres		**5.1%**	**-2.3%**	**6.1%**	**2.0%**	**4.8%**	**2.3%**

Annualized Total Returns. From 12.31.28 through 12.31.18. Performance segregated by presidential and congressional party are geometric averages. Performance divided only by presidential party are also geometric averages. SOURCE: Kovitz using data from the U.S. House of Representatives, Morningstar and Professors Eugene F. Fama and Kenneth R. French

President Party	Congress Party	Start Date	End Date	Dividend Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
R	R	12.31.1928	12.31.1930	-39.5%	-65.3%	-56.0%	-54.4%	-31.2%	-69.9%
R	R	12.31.1930	12.31.1932	-50.1%	-50.8%	-52.6%	-44.2%	-48.0%	-52.5%
Hoover		**12.31.1928**	**12.31.1932**	**-69.8%**	**-82.9%**	**-79.1%**	**-74.5%**	**-64.2%**	**-85.7%**
D	D	12.31.1932	12.31.1934	80.1%	60.8%	116.0%	137.5%	51.8%	201.7%
D	D	12.31.1934	12.31.1936	83.4%	153.2%	152.1%	78.6%	97.8%	131.0%
Roosevelt		**12.31.1932**	**12.31.1936**	**230.3%**	**307.2%**	**444.6%**	**324.2%**	**200.1%**	**597.0%**
D	D	12.31.1936	12.31.1938	-13.7%	-31.2%	-31.3%	-19.3%	-14.8%	-44.2%
D	D	12.31.1938	12.31.1940	-3.0%	-22.0%	-16.1%	3.1%	-10.2%	-4.8%
Roosevelt		**12.31.1936**	**12.31.1940**	**-16.4%**	**-46.3%**	**-42.3%**	**-16.8%**	**-23.5%**	**-46.9%**
D	D	12.31.1940	12.31.1942	5.7%	13.5%	31.0%	-1.0%	6.4%	31.5%
D	D	12.31.1942	12.31.1944	61.5%	164.2%	143.3%	68.4%	50.8%	189.6%
Roosevelt		**12.31.1940**	**12.31.1944**	**70.7%**	**199.7%**	**218.8%**	**66.7%**	**60.4%**	**280.8%**
D	D	12.31.1944	12.31.1946	30.5%	44.3%	47.2%	31.8%	25.4%	53.4%
D	R	12.31.1946	12.31.1948	7.3%	-20.2%	8.5%	-5.0%	11.5%	-1.2%
Truman		**12.31.1944**	**12.31.1948**	**40.0%**	**15.1%**	**59.7%**	**25.2%**	**39.9%**	**51.6%**
D	D	12.31.1948	12.31.1950	59.2%	98.0%	84.7%	58.2%	56.5%	66.1%
D	D	12.31.1950	12.31.1952	38.0%	17.8%	28.9%	30.7%	46.8%	11.1%
Truman		**12.31.1948**	**12.31.1952**	**119.7%**	**133.2%**	**138.2%**	**106.8%**	**129.7%**	**84.5%**
R	R	12.31.1952	12.31.1954	51.7%	42.4%	58.2%	47.1%	51.1%	50.2%
R	D	12.31.1954	12.31.1956	36.8%	19.2%	33.7%	28.9%	40.2%	25.6%
Eisenhower		**12.31.1952**	**12.31.1956**	**107.5%**	**69.7%**	**111.6%**	**89.6%**	**111.8%**	**88.6%**
R	D	12.31.1956	12.31.1958	31.2%	30.6%	38.5%	37.5%	27.9%	40.9%
R	D	12.31.1958	12.31.1960	15.2%	0.8%	9.8%	13.8%	12.5%	12.6%
Eisenhower		**12.31.1956**	**12.31.1960**	**51.1%**	**31.6%**	**52.0%**	**56.5%**	**43.9%**	**58.6%**
D	D	12.31.1960	12.31.1962	17.7%	-8.1%	22.5%	4.3%	15.8%	16.4%
D	D	12.31.1962	12.31.1964	44.8%	15.4%	58.7%	28.0%	43.0%	57.6%
Kennedy/Johnson		**12.31.1960**	**12.31.1964**	**70.5%**	**6.0%**	**94.4%**	**33.6%**	**65.7%**	**77.6%**
D	D	12.31.1964	12.31.1966	1.6%	42.6%	20.1%	14.5%	1.1%	31.8%
D	D	12.31.1966	12.31.1968	42.9%	127.4%	103.6%	84.1%	37.7%	149.6%
Johnson		**12.31.1964**	**12.31.1968**	**45.1%**	**224.3%**	**144.6%**	**110.8%**	**39.3%**	**229.0%**
R	D	12.31.1968	12.31.1970	-7.4%	-48.9%	-13.9%	-23.9%	-4.8%	-38.1%
R	D	12.31.1970	12.31.1972	34.2%	21.4%	29.0%	38.7%	36.0%	21.7%
Nixon		**12.31.1968**	**12.31.1972**	**24.2%**	**-38.0%**	**11.1%**	**5.6%**	**29.4%**	**-24.7%**
R	D	12.31.1972	12.31.1974	-36.1%	-63.2%	-33.7%	-54.6%	-37.2%	-44.7%
R	D	12.31.1974	12.31.1976	81.0%	127.1%	139.5%	88.6%	69.9%	140.5%
Nixon/Ford		**12.31.1972**	**12.31.1976**	**15.7%**	**-16.5%**	**58.7%**	**-14.4%**	**6.6%**	**33.0%**
D	D	12.31.1976	12.31.1978	5.2%	41.7%	26.2%	17.3%	-1.1%	54.8%
D	D	12.31.1978	12.31.1980	60.3%	161.8%	56.5%	90.6%	56.8%	100.7%
Carter		**12.31.1976**	**12.31.1980**	**68.7%**	**270.9%**	**97.5%**	**123.6%**	**55.1%**	**210.6%**
R	S	12.31.1980	12.31.1982	20.4%	-4.2%	55.3%	9.7%	15.4%	45.8%
R	S	12.31.1982	12.31.1984	29.3%	-1.9%	54.1%	8.5%	30.2%	30.4%
Reagan		**12.31.1980**	**12.31.1984**	**55.6%**	**-6.1%**	**139.3%**	**19.1%**	**50.3%**	**90.0%**
R	S	12.31.1984	12.31.1986	57.9%	26.4%	56.2%	42.2%	56.6%	33.2%
R	D	12.31.1986	12.31.1988	21.8%	8.9%	23.1%	10.2%	22.9%	11.5%
Reagan		**12.31.1984**	**12.31.1988**	**92.3%**	**37.7%**	**92.3%**	**56.8%**	**92.5%**	**48.5%**
R	D	12.31.1988	12.31.1990	24.2%	2.8%	0.3%	15.6%	27.3%	-13.6%
R	D	12.31.1990	12.31.1992	45.2%	70.3%	73.5%	56.8%	40.6%	78.4%
Bush H.		**12.31.1988**	**12.31.1992**	**80.4%**	**75.1%**	**74.1%**	**81.3%**	**79.0%**	**54.2%**
D	D	12.31.1992	12.31.1994	9.9%	17.4%	20.8%	3.1%	11.4%	24.7%
D	R	12.31.1994	12.31.1996	69.6%	56.9%	69.6%	55.4%	69.1%	58.2%
Clinton		**12.31.1992**	**12.31.1996**	**86.4%**	**84.1%**	**104.9%**	**60.3%**	**88.5%**	**97.3%**
D	R	12.31.1996	12.31.1998	65.7%	60.8%	50.5%	41.1%	71.5%	13.8%
D	R	12.31.1998	12.31.2000	16.9%	16.6%	28.4%	13.4%	10.0%	25.1%
Clinton		**12.31.1996**	**12.31.2000**	**93.7%**	**87.4%**	**93.3%**	**60.0%**	**88.7%**	**42.4%**
R	R	12.31.2000	12.31.2002	-18.7%	-45.5%	-10.5%	-32.4%	-31.4%	6.5%
R	R	12.31.2002	12.31.2004	41.7%	62.0%	75.6%	56.9%	42.7%	90.3%
Bush W.		**12.31.2000**	**12.31.2004**	**15.2%**	**-11.7%**	**57.1%**	**6.0%**	**-2.1%**	**102.6%**
R	R	12.31.2004	12.31.2006	23.0%	19.1%	37.1%	12.7%	21.5%	22.8%
R	S	12.31.2006	12.31.2008	-31.7%	-36.4%	-39.8%	-31.3%	-33.5%	-40.0%
Bush W.		**12.31.2004**	**12.31.2008**	**-16.0%**	**-24.3%**	**-17.4%**	**-22.5%**	**-19.3%**	**-26.4%**
D	D	12.31.2008	12.31.2010	41.8%	84.4%	46.9%	64.9%	45.5%	68.1%
D	S	12.31.2010	12.31.2012	17.5%	15.5%	13.1%	14.0%	18.5%	14.4%
Obama		**12.31.2008**	**12.31.2012**	**66.7%**	**112.9%**	**66.2%**	**88.0%**	**72.4%**	**92.3%**
D	S	12.31.2012	12.31.2014	50.5%	53.7%	52.2%	53.0%	50.5%	49.3%
D	R	12.31.2014	12.31.2016	12.8%	11.4%	19.8%	9.7%	13.5%	21.1%
Obama		**12.31.2012**	**12.31.2016**	**69.7%**	**71.2%**	**82.3%**	**67.8%**	**70.8%**	**80.8%**
R	R	12.31.2016	12.31.2018	12.9%	26.8%	1.1%	22.8%	16.5%	-7.5%
Trump		**12.31.2016**	**12.31.2018**	**12.9%**	**26.8%**	**-1.1%**	**22.8%**	**16.5%**	**-7.5%**

Total Returns are not annualized. From 12.31.28 through 12.31.18. SOURCE: Kovitz using data from the U.S. House of Representatives, Morningstar and Professors Eugene F. Fama and Kenneth R. French

Obviously, there are no assurances that past is prologue, but it is interesting that supposed conventional wisdom about what should happen on Wall Street (e.g. Republicans are better for stocks) is often turned on its head by what actually has taken place.

THE PRUDENT SPECULATOR

BUSTING THE MYTHS: HIGHER TAX RATES FAVOR…DIVIDEND PAYERS

With the Biden Tax plan supposedly returning the tax rate on dividends to the ordinary income rate, rather than the preferential "qualified" rate that has been in place since 2003, some are suggesting that investors avoid dividend paying stocks. Keeping in mind that capital gains have accounted for the lion's share of long-term returns, the table below vividly illustrates that **dividend-paying stocks have outperformed non-dividend payers when taxed at higher levels and vice-versa**.

Tax Regimes & Annualized Equity Returns

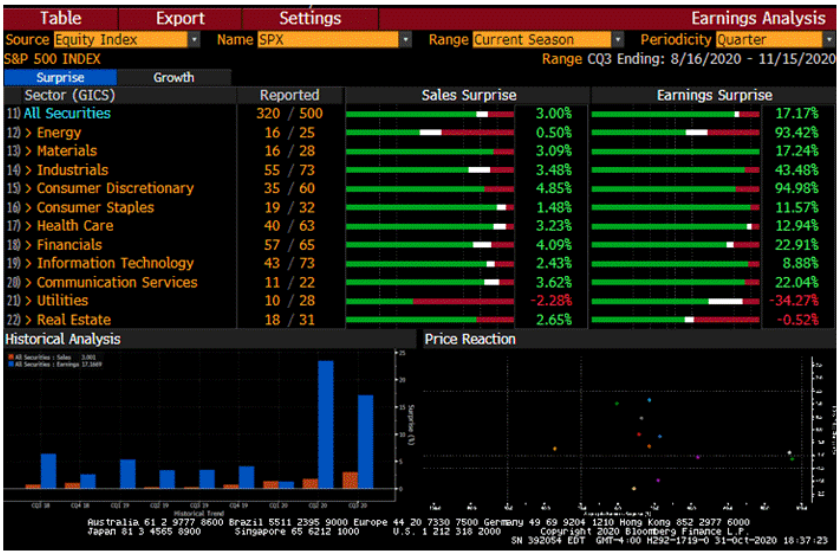
Period	Dividend Status	No Dividends	Low 30% Div Payers	Mid 40% Div Payers	High 30% Div Payers	All Div Payers
Revenue Act 1936						
1936-1939	Fully Taxable	-1.6%	4.6%	4.5%	-0.4%	3.2%
Revenue Act 1940						
1940-1953	Exempt	14.1%	9.5%	12.6%	13.7%	12.1%
Internal Revenue Code 1954						
1954-1985	Normal Income with Modest Credits	9.6%	10.6%	11.5%	14.2%	12.2%
Tax Reform Act 1986						
1986-2002	Fully Taxable	7.9%	11.6%	12.4%	13.7%	12.7%
Bush Tax Cuts 2003						
2003-2020	Qualified Dividends at Lower Rate	15.6%	10.5%	12.4%	8.9%	10.9%

Source: Kovitz using data from Professors Fama & French. IRS.gov and SureDividend.com

So, we will simply stay the course during the Election turbulence, buoyed by our belief that our broadly diversified portfolios of undervalued stocks will provide handsome long-term returns. Our optimism is based on the fact that corporate profits (85.3% of S&P 500 members have posted Q3 earnings above expectations thus far, even as management outlooks have been guarded and sometimes have been met with no investor enthusiasm) likely will grow over time,…

Q3 EPS SURPRISINGLY STRONG AND BETTER 2021 EXPECTED

Q3 earnings reporting season has been terrific, relative to analyst projections that had been much too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS will be down greatly from 2019, but a significant rebound is projected next year.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2021	$44.69	$164.30
9/30/2021	$42.32	$155.59
6/30/2021	$40.10	$146.68
3/31/2021	$37.19	$133.37
12/31/2020	$35.98	$115.68
9/30/2020	$33.41	$118.88
ACTUAL		
6/30/2020	$26.79	$125.28
3/31/2020	$19.50	$138.63
12/31/2019	$39.18	$157.12
9/30/2019	$39.81	$152.97
6/30/2019	$40.14	$154.54
3/31/2019	$37.99	$153.05
12/31/2018	$35.03	$151.60
9/30/2018	$41.38	$150.42
6/30/2018	$38.65	$140.37
3/31/2018	$36.54	$132.23
12/31/2017	$33.85	$124.51
9/30/2017	$31.33	$118.56
6/30/2017	$30.51	$115.92
3/31/2017	$28.82	$111.11
12/31/2016	$27.90	$106.26

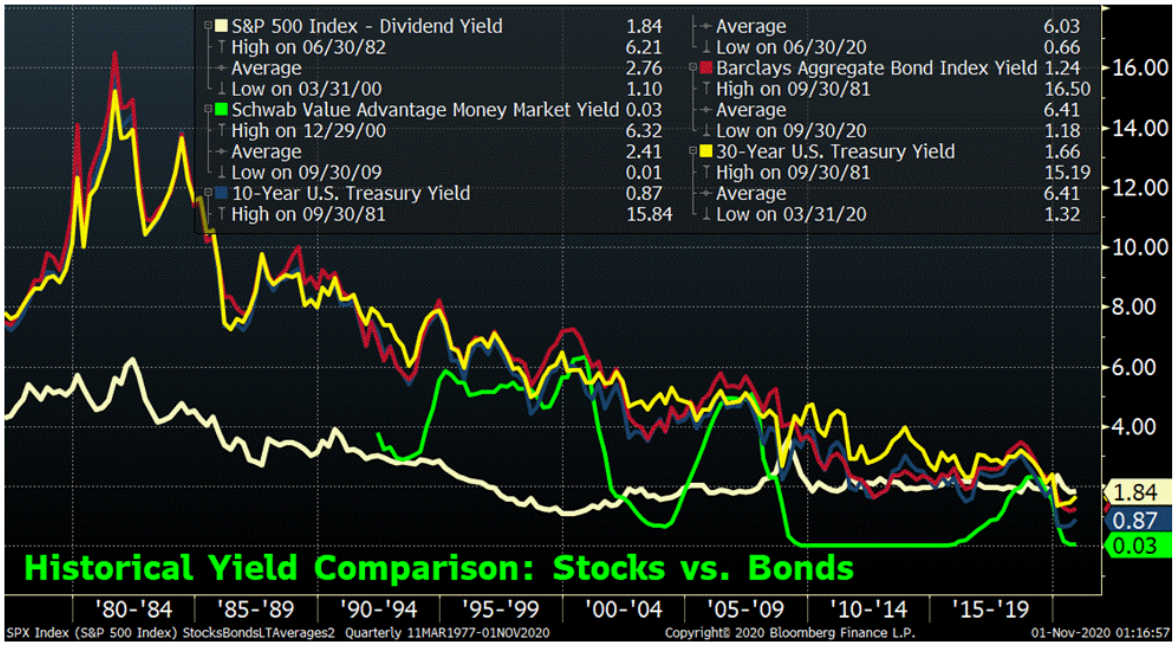
Source: Standard & Poor's. As of 10.22.20

…and that many stocks are extraordinarily attractive today from an income perspective, given the incredibly low interest rate environment.

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.84%) is extraordinarily generous versus the income provided by fixed income, especially given the recent plunge in rates. Incredibly, **equities yield more than the Barclays Aggregate Bond Index and more than 60 times the yield of a "generous" Money Market Fund!**



Stock Updates

While we are in the process of posting updated Target Prices to theprudentspeculator.com for all of our recommendations, Jason Clark, Chris Quigley and Zach Tart look at 13 of our companies that had developments of sufficient importance to merit a valuation review. Keep in mind that all stocks are rated as a "Buy" until such time as they are a "Sell." A listing of all current recommendations is available for download via the following link: https://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Technology hardware designer and manufacturer **Apple** (AAPL – $108.86) earned $0.73 per share in Q4 2020 (vs. $0.70 est.). AAPL had total revenue of $64.7 billion, versus the $63.5 billion estimate. Despite the solid quarter, shares fell 5.6% on account of weaker than expected iPhone sales volume and a sharp drop in revenue from China. CEO Tim Cook said that Apple is working "really, really hard" to fix supply chain constraints across most of the company's hardware offerings. We note that year-over-year comparisons are more difficult for fiscal Q4, as Apple's iPhone launch event occurred in October instead of the customary September date due to COVID-19.

Mr. Cook explained the secret to Apple's success during this challenging year, "When we first began to grapple with COVID-19, I said there are worse things for a company whose business is innovation than having to periodically do just about everything in an entirely new way. This year, we not only launched our most powerful and compelling generation of hardware, software and services ever, we did it in a way that pushed us to reimagine every part of that innovation process down to how we share these announcements with the world and how we get new products into our customers' hands. Working from kitchen tables and bedrooms, in distanced office settings and reworked labs and manufacturing facilities, the team rebuilt every part of the plane while it was midair, and the results speak for themselves. In a year that has been enormously challenging, our retail teams, contact centers and all those who work with our customers most closely have gone to creative and dedicated lengths to keep serving our customers, from adapting our stores for contactless pickup to new Apple express storefronts to new online customer support options. Amid store closings, reopenings and reimaginings, these teams have been an unfailing source of energy, creativity and determination. Innovation isn't just about what you make, it's about how you approach problems, and these teams and every team across Apple have not faced a single question this year that they haven't found an answer to with passion and resolve. Their actions didn't just meet the moment, they will make us a better company moving forward."

CFO Luca Maestri offered the outlook, "Given the continued uncertainty around the world in the near term, we will not be issuing revenue guidance for the coming quarter. However, we are providing some insights on our expectations for the December quarter for our product categories. These directional comments assume that COVID-related impacts to our business in November and December are similar to what we've seen in October. We just started shipping iPhone 12 and 12 Pro, and we're off to a great start. We are also excited to start preorders on iPhone 12 mini and 12 Pro Max next Friday. Given the tremendously positive response, we expect iPhone revenue to grow during the December quarter despite shipping iPhone 12 and 12 Pro 4 weeks into the quarter and iPhone 12 mini and 12 Pro Max 7 weeks into the quarter. We expect all other products in aggregate to grow double digits, and we also expect Services to continue to grow double digits. For gross margin, we expect it to be similar to our most recent quarters despite the costs associated with the launch of several new products. For operating expenditures, we expect to be between $10.7 billion and $10.8 billion."

Apple's quarterly dividend remains at 20.5 cents per share and the company's mountain of cash is $192 billion tall. We are pleased, though not surprised, that the delayed iPhone 12s are receiving strong reviews. The Apple Store had extended shipping times for most of the new models, which we think in this environment is reflective of pandemic-related supply chain constraints and strong consumer demand. The staggered roll-out of the various models also helps take pressure off the shipping system. Our Target Price for Apple is $136 and it remains one of the largest holdings in our broadly diversified portfolios.

Search engine and internet technology leader **Alphabet** (GOOG – $1621.01) posted earnings per share of $16.40, versus the $11.42 estimate in fiscal Q3 2020. GOOG had sales of $38.0 billion, versus the $35.3 billion estimate. The company reported strength in Google Cloud, Google Play and YouTube subscriptions and said it would begin breaking out Google Cloud revenue

separately next quarter. The company's Google search engine had improving advertising spend in all geographies, a result of COVID-19-related searches and businesses resuming operations.

CEO Sundar Pichai said, "I want to reiterate our 4 key areas of focus, which you've heard me talk about all year. First, creating the most helpful products for everyone. Our investments in Search, Maps and Shopping that I discussed earlier as well as YouTube are prime examples. Second, providing the most trusted experiences for our users. We continue to work hard to keep users safe and put them in control of their information. Every day, Gmail blocks more than 100 million phishing attempts, and Google Play Protect scans over 100 million apps for malware and other issues. Third, executing at scale productively, securely and collaboratively; and finally, creating sustainable value, which means creating financially viable and self-sustaining products."

CFO Ruth Porat added, "We are pleased with the improvement in profitability versus the prior quarter, reflecting both the revenue performance versus Q2 as well as the tactical adjustments we made to slow down certain categories of spend in response to COVID. In particular, the deceleration in head count growth this quarter reflects the actions we took at the outset of the pandemic to focus hiring on our highest-priority areas like Google Cloud…Looking ahead, we remain focused on making the right investments to support growth. We continue to invest where we see the potential to create long-term sustainable financial value, including investing aggressively to support growth in Cloud. In addition, given the acceleration in digital transformation, we are focused on ensuring that we remain well positioned to deliver for users and advertisers in this evolving environment."

We think the long term for Alphabet remains bright, and while the company's valuation is on the expensive end (including a forward P/E near 25), we believe the terrific balance sheet ($105 billion in net cash or $152 per share) and great opportunity ahead make it an attractive holding. The company faces some new regulatory risk as a result of Congress' interest in potentially anti-competitive practices within the Tech and Communication Services sectors. At this point, it's difficult to handicap the direction that investigation will head in due to the election on Tuesday, but we remain comfortable with our GOOG position. Our Target Price has been raised to $1,809.

Computing giant **Microsoft** (MSFT – $202.47) earned $1.82 per share in fiscal Q1 2021 (vs. $1.55 est.). MSFT had total revenue of $37.2 billion, versus the $35.7 billion estimate. Shares have tumbled 5% since the announcement, though the year-to-date gain for the Washington-based company is nearly 30%.

CEO Satya Nadella said, "We are off to a strong start in fiscal 2021, driven by the continued strength of our commercial cloud, which surpassed $15 billion in revenue, up 31% year-over-year. The next decade of economic performance for every business will be defined by the speed of their digital transformation. We are innovating across the full modern tech stack to help customers in every industry improve time to value, increase agility and reduce costs. We are building Azure as the world's computer with more data center regions than any other provider, now 66, including new regions in Austria, Brazil, Greece and Taiwan. We're expanding our hybrid capability so that organizations can seamlessly build, manage and deploy their applications anywhere. With Arc, customers can extend Azure management and deploy Azure data services on-premise, at the edge or in multi-cloud environments. With Azure SQL Edge, we

are bringing SQL data engine to IoT devices for the first time. And with Azure Space, we are partnering with SpaceX and SES to bring Azure compute to anywhere on the planet…In a world of uncertainty and constraints, every person and every organization needs more digital technology to recover and reimagine what comes next. This represents an unprecedented expansion of our addressable market in every layer of the tech stack. We are focused on innovating and differentiating to meet these needs and growing opportunity."

CEO Amy Hood offered a detailed outlook, "In our commercial business, expanding addressable markets, differentiated value and consistent execution should drive another quarter of increased usage and growing commitment to our platform that drive commercial bookings. However, a declining expiry base will impact the growth. As always, large long-term Azure contracts are more unpredictable in their timing and increasing mix of these long-term agreements drives more quarterly volatility in bookings. And though trends have improved a bit, growth will continue to be impacted by transactional weakness. A strong prior year comparable that included the end of support for Windows 7 and Windows Server 2008 as well as transactional strength in Japan across our Office businesses will also impact growth rates. As digital transformation accelerates and our sales teams and partners continue to execute well in serving customers, our high-value solutions should drive full year double-digit revenue growth in our commercial segments even in a challenging and competitive environment."

Microsoft remains one of our larger holdings, even after we gave positions a recent trim towards the end of August. We continue to think the company has long-term growth potential especially in the relatively new Cloud space, while the historical cash machines Windows and Office have almost totally converted to a subscription model. We also think that Mr. Nadella's transformation of Microsoft has been tremendous, and Microsoft has multiple opportunities to grow revenue. Of course, the valuation is still on the high end, but MSFT is the second-largest component in the S&P 500 and Russell 3000 indexes, meaning that even at our base portfolio weights, we actually would look better against those indexes if Microsoft shares plunged in price. Our MSFT Target Price is now $243.

Benchmark Electronics (BHE – $20.83) delivered Q3 results last week that included top- and bottom-line beats of the consensus analyst estimates. For the three-month period, BHE said its revenue reached $526 million, versus expectations of $512 million. Adjusted EPS in Q3 was $0.32, compared to the forecast of $0.28. The quarter saw a continued recovery in the Semi-cap business, which helped absorb the expected demand softness in Medical. BHE has made solid progress towards shifting its mix toward higher-value markets (81% in Q3) and had reduced inventory (down $11M sequentially), which we see as very encouraging.

New Business Wins Continue

Medical	▶ Rapid COVID-19 diagnostic device manufacturing (mfg) ▶ Pulmonary pharmaceutical device (process design, & mfg) ▶ Optical diagnostic product for renal applications (design)
Semi-Cap	▶ Control box for Semi-Cap tools (design) ▶ Lithography device (manufacturing)
Aerospace & Defense	▶ Secure communication radio modules (design solutions & mfg) ▶ Fighter aircraft electronics (mfg)
Industrials	▶ Lidar electronics and full system build (mfg) ▶ Oscilloscopes (design and mfg)
Computing & Telco	▶ Hyper Scale Computing (mfg prototyping) ▶ Network control and monitoring electronics (mfg)

dnanudge

DNANUDGE SELECTS BENCHMARK FOR VOLUME MANUFACTURING OF RAPID, LAB-FREE COVID-19 TESTING SYSTEM

- Awarded to Benchmark's engineering and manufacturing facility in The Netherlands
- Partnering with DnaNudge to provide design for excellence and high reliability manufacturing for rapid launch in the European market

ZOLL

BENCHMARK HELPED ZOLL MEET HEIGHTENED DEMAND FOR VENTILATOR PRODUCTION CREATED BY COVID-19 PANDEMIC

- Awarded to Benchmark's engineering and manufacturing facility in New Hampshire
- Benchmark established production Line for the ZOLL EMV+ Ventilators and ramped to full capacity in nearly six weeks

Benchmark | 4

CEO Jeff Benck commented, "We delivered sequential revenue and earnings growth in the third quarter as our business started to recover from second quarter disruptions, enabling earnings to come in above our guidance for the quarter. The results were driven by a 45% year-over-year improvement in Semi-cap and an 18% sequential improvement in the Aerospace and Defense sector, where demand for defense related products remains strong. In addition, third quarter non-GAAP gross and operating margins improved significantly from the second quarter, reaching 8.7% and 3.0% respectively, as our global network returned to normal operating capacity."

Looking ahead, Mr. Benck said, "Entering the fourth quarter, we expect stronger demand and new programs in Defense, Industrials, and Telecommunications to offset declines in Medical as we are completing some of the incremental upside builds for COVID-19 related therapeutic equipment. We continue to make progress on improving gross margins as we expect to achieve our 9% target in the fourth quarter, which will enable us to also improve earnings sequentially." The company, with plenty of COVID-19 caveats, now expects Q4 revenue to be between $500 million and $540 million and adjusted EPS between $0.32 and $0.36.

As an electronics device designer that performs contract work for original equipment manufacturers, Benchmark supplies a wide variety of industries. While the diversification is positive, it also makes it hard to believe that all of its business segments will escape unscathed

from the impact of COVID-19, though these headwinds are certainly not unique to to BHE. That said, we like the steps management has taken to diversify its customer base, not to mention the strong balance sheet. The stock also yields 3.1%. Our Target Price for BHE has been bumped up to $32.

Semiconductor equipment firm **Cohu** (COHU – $21.73) earned $0.27 per share in fiscal Q3 2020 (vs. $0.18 est.). COHU had sales of $151.0 million (vs. $146.0 million est.). Shares have soared 26% in the two trading days following the announcement, thanks to the strong beat and sizeable improvement in year-over-year guidance. COHU expects Q4 revenue between $176 million and $192 million (vs. $142 million in Q4 2019), with EBITDA (earnings before interest, taxes, depreciation and amortization) growth around 18% and a gross margin between 44% and 45%.

CEO Luis Muller said, "As orders strengthened, we're able to accelerate some recurring shipments in support of customers' production ramps. Our operations team and supply chain partners did a great job meeting customer needs in the third quarter and even more so going into the fourth quarter. Third quarter orders were split 40% recurring and 60% systems, with a sharp increase in demand for our testers and handlers and another sequential record booking quarter for PCB test equipment. Overall, estimated test cell utilization increased 3 points quarter-over-quarter to 81% at the end of September. Mobility continues to be a very strong segment for Cohu, particularly for RF test of devices going into next-generation 5G smartphones."

Mr. Muller continued, "Now looking at the impact of the COVID-19 pandemic to our business. This has been an incredibly challenging year for our employees, customers, suppliers and communities. We're committed to ensuring the safety of all stakeholders to protecting our livelihood and doing the best we can for our communities. Cohu has increased supply chain resilience and implemented policies to safeguard our employees, ensure business continuity and support our customers. Because of the pandemic, Cohu has reduced travel and other expenses, and we're now finding new ways to support customers. Among these, we're implementing virtual reality-assisted technologies to bring experts to the field without leaving their homes. We're excited to pilot new technologies like this to enhance customer support and expect long-lasting benefit from our — from such solutions, including lower operating expenses when the pandemic crisis subsides."

Mr. Muller offered detail on next quarter's guidance, "We're encouraged by momentum across Cohu's main market segments and by customer interest for our new products. We'll be guiding fourth quarter revenue and profitability up and are forecasting this strength to continue into 2021. Cohu is poised to grow next year with accelerating 5G deployments, compounded by a: projected increase in smartphone units; growing ADAS and electrification; unanticipated expanding automotive unit sales; new opportunities in computing with edge processing. AI and next-generation GPUs; and expected recovery in the industrial segment with improving global GDP. All in all, Cohu is improving its operations and service infrastructure to meet the evolving pandemic-driven challenges, lowering operating expenses and aligning products with momentum markets that will deliver revenue growth."

The 5G rollout is a hot topic across the entire Tech sector, and we were pleased to see Cohu benefitting handsomely from the global technology equipment investment. We expect the sales momentum to continue as the availability of 5G grows. Analysts expect COHU to grow EPS from around $0.94 this year to more than $2.25 in 2022. Our Target Price has been boosted to $26.

Network hardware provider **Juniper Networks** (JNPR – $19.72) earned $0.43 per share in fiscal Q3 2020 (vs. $0.44 est.). JNPR's revenue matched the consensus estimate of $1.1 billion. Shares fell 6.3% following the announcement and 10% since the release after the company's outlook underwhelmed analysts. JNPR expects Q4 EPS between $0.48 and $0.58 (vs. $0.53 est.) Certainly, it's a bit strange for analysts to conclude that the outlook is "discouraging" when the midpoint aligned perfectly with the consensus estimate.

CEO Rami Rahim said, "At the beginning of this year, we focused our sales teams, product management teams and engineering teams on compelling and differentiated use cases targeting the AI-driven enterprise, automated WAN solution and cloud-ready data centers. We believe each of these use cases is likely to see very attractive market tailwinds over the next several years and focusing our resources on these specific areas should enable us to accelerate our growth as these opportunities unfold. And by focusing our resources on these areas, we should have the opportunity to speed time to market, accelerate share and leverage development costs across a wide base. While this alignment should position us to better capitalize on big opportunities like the move to AI-driven cloud-managed architectures, 400-gig and 5G in the years to come, the early feedback from our teams has been incredibly positive, and we're already starting to see the benefits of this alignment, which you'll hear me discuss more in future calls."

Mr. Rahim offered some detail on the Cloud segment, "[it] came in slightly weaker than we originally expected. We believe the decline on both a quarter-over-quarter and year-over-year basis was largely a function of lumpiness following 5 consecutive quarters of year-over-year growth. We believe this lumpiness reflects normal customer consumption patterns. Our Cloud backlog remains healthy, and we believe the general spending outlook from a hyperscale and Tier 2 customers remain favorable. We believe we are holding our WAN footprint and are increasingly optimistic regarding our potential to gain data center share in the years to come. While we now believe our Cloud business is likely to be flat to slightly up for the full year 2020, we remain confident in our ability to grow this business in '21 and beyond."

JNPR repurchased $100 million worth of shares last quarter and confirmed that it will pay the $0.20 quarterly dividend next quarter, while management says it "will remain opportunistic with respect to share buybacks." The company has $1.8 billion of cash on its balance sheet and approximately the same amount in debt, with plenty of room to take on extra borrowing if needed via a $500 million credit line that matures in 2024. Cloud customers continue to be of chief importance to JNPR, as the restructuring of the sales force is a move we view positively despite the initial cost. JNPR trades with a forward P/E less than 12 and yields a rich (especially for a tech stock) 4.1%. Our Target Price is presently $34.

Despite turning in another strong quarter, boosting its backlog and hiking the dividend again (up 21% to a quarterly payout of $0.40), shares of homebuilder **MDC Holdings** (MDC – $43.52) fell

nearly 10% last week. Adjusted EPS for Q3 came in at $1.49, 22% above the consensus forecast. Revenue also beat expectations, by 7.5%, coming in at $1.04 billion. The company said that its backlog dollar value was up 47% year-over-year to $3.08 billion and that the dollar value of net new orders increased 89% year-over-year to $1.65 billion.

Executive Chairman Larry A. Mizel commented, "MDC posted another quarter of significant top and bottom line growth in the third quarter of 2020. Home sales revenue grew 33% year-over-year, while net income rose at nearly three times that rate thanks to the operational leverage we were able to achieve in the quarter. Both our home sale gross margin and our SG&A leverage improved during the quarter, a testament to our ability to drive revenue growth while keeping costs in check. We experienced extremely strong order activity in the third quarter, with net new orders up 73% year-over-year on an absorption pace of 6.1 homes per community per month. The demand has been broad-based both from a geographic and buyer segment standpoint, allowing us to implement price increases at a majority of our communities during the quarter. We believe this demand is being driven by a number of factors, including low interest rates, scarce resale inventory and an accelerating demographic shift towards homebuying."

Mr. Mizel concluded, "MDC remains well positioned to take advantage of the shifts we are seeing in our industry thanks to our focus on the more affordable segments of the market, our geographic footprint and our build-to-order operating model. The favorable industry fundamentals we are experiencing coupled with our market positioning and strategic focus has our company primed for growth. With a backlog sales value at the end of the quarter nearly 50% higher than a year ago, we expect to end 2020 on a strong note and carry that momentum into 2021."

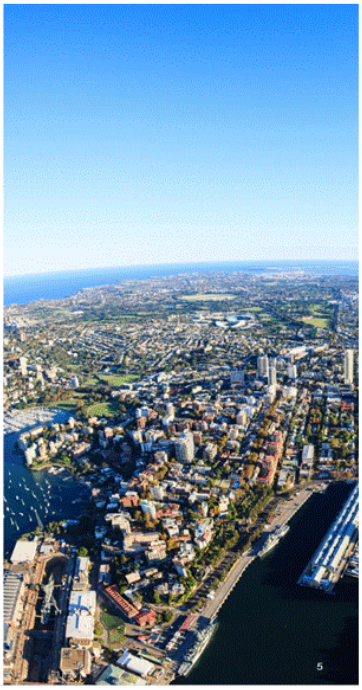
We continue to be impressed with MDC's momentum build and we believe that the company is poised for more long-term success. Interest rates are extraordinarily low and probably will remain that way, which should help MDC as the cost of borrowing for both it and its potential customers remains extremely attractive. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet Additionally, we like its focus on first time buyers (many Millennials) with its Seasons collection of homes. Even as the stock is still up more than 14% year-to-date, MDC's dividend yield is a rich 3.7%. Our Target Price for MDC has been hiked to $61.

Industrial conglomerate **3M** (MMM – $159.96) released rather solid Q3 financial results last Tuesday. The company produced $2.43 of earnings per share versus the $2.26 expected by the Street, while sales were in line with forecasts. Despite the beat, shares sold off nearly in tandem with the broader market. The Health Care business stood out as strong demand drove organic sales growth of 8.1% year-on-year with operating margins of 23.5%. Management says the firm is on pace to sell more than 2 billion N95 masks by the end of the year.

Q3 business and geographic performance

Organic sales up +0.9%; adjusted EPS of $2.43

Business/ area organic sales	• By business: Health Care: +8.1%; Safety & Industrial: +6.9%; Consumer: +5.5%; Transportation & Electronics: -7.1% • By area: Americas: +3.4%; EMEA: -0.3%; Asia Pacific: -2.6% • COVID-related respirator sales growth of ~$235M, or +3 ppts contribution to total company sales growth
End-markets trends	• Broad-based sequential improvements, yet many end-markets continue to face COVID-related headwinds and remain down year-on-year • Continued strength in personal safety, home improvement, general cleaning, semiconductor, data center, and biopharma filtration • Year-on-year declines persist in healthcare and oral care elective procedures, auto OEM, general industrial, consumer electronics, hospitality, office supplies, healthcare IT, and traffic safety
Strong execution	• Improving adjusted EBITDA margins: Q3 28.6%, flat year-on-year and up 2.1 ppts sequentially; year-to-date 27.2%, up 0.5 ppts • Strong adjusted free cash flow: Q3 $2.2B and year-to-date $4.6B, up 13% and 19% year-on-year, respectively • Strengthening capital structure, net debt: Q3 decline of $1.3B, or 8%, sequentially; year-to-date decline of $2.8B, or 16%



CEO Mike Roman commented, “Over the past several months, customer and stakeholder trust in 3M has grown because of how we have delivered through the pandemic. COVID-19 is rapidly changing the global economy and the way people live, work and communicate. Years worth of changes are unfolding in a matter of months, creating opportunities to unleash the power of 3M science to drive sustainable long-term growth. For example, with people at home more, there is growing demand for products to both maintain and improve households. This includes indoor air quality solutions, where we’ve increased investments in our Filtrete portfolio to introduce new innovative products and create additional capacity. As a result, our air quality platform has grown double digits year-to-date as we keep families healthier and more productive, and we expect this market trend to continue. An increased focus in other areas like personal safety, automotive electrification and biopharma filtration, to name a few, also open additional opportunities for 3M. At the same time, end markets like office, hospitality and oil and gas have been highly impacted by COVID-19 and are declining as a result.”

Mr. Roman continued, “During COVID-19, the strength of our model has never been clearer from our ability to deliver a threefold increase in global respirator production this year to the reconfiguration of our supply chain that enabled us to import more than 200 million respirators into the U.S. from Asia Pacific. In a matter of weeks, we also fully scaled up 2 new respirator lines at a plant in Sheboygan Falls, Wisconsin, a process that would normally take several

months. Those lines are now operating at rates 30% above similar lines as we've incorporated significant new technologies and analytic platforms, and we continue to further optimize production volumes. While we have made progress, more work remains to build a stronger and more agile enterprise."

After a multi-year turnaround that has included a significant restructuring effort, we are delighted to see 3 of MMM's 4 segments return to organic growth. These efforts have tested investor patience, but actions taken to lean-out and decentralize the company's various businesses appear to have been beneficial in the wake of a demanding year. Although share repurchases remain suspended, management conveyed the board's commitment to the dividend. Shares yield 3.7%. Our Target Price for MMM now resides at $192.

Caterpillar (CAT – $157.05) saw its shares drop nearly 4% Wednesday, even as the construction equipment manufacturer reported Q3 financials before the market open that included a significant bottom-line beat (EPS of $1.34 vs $1.13). Revenue was 23% lower year-over-year as dealers continue to clear inventory at an elevated pace, but we were impressed with the 10.0% operating margin given the current environment (a 220 bps improvement from Q2). Management expects higher sales in Q4 compared to Q3 due to strong government infrastructure spending and building activity in China and base metal commodity demand strength across markets. Share repurchases remain suspended for the remainder of the year.

CEO Jim Umpleby commented, "We remain committed to our strategy launched in 2017, which is based on operational excellence, expanded offerings and services. The operational excellence element of our strategy has served us well, resulting in disciplined management of structural costs. As a result, we went into the pandemic with a strong balance sheet and have continued to invest in expanded offerings and services to make our customers more successful. We're introducing several new products and are enhancing our digital capabilities."

With an eye toward the remainder of the year, Mr. Umpleby added, "As we look ahead for the end markets we serve at Caterpillar, much still depends on the pandemic and its impact on the global economy. While the situation remains fluid, overall, we are cautiously optimistic. We continue to work closely with our suppliers to be well positioned to meet changes in market demand. We're maintaining good product availability levels for the vast majority of our products. Availability of our aftermarket parts is solid as well."

CAT continues to have a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. While operational hurdles remain and aren't likely to disappear tomorrow, we point out that Caterpillar is conservatively financed, with enough liquidity currently available to meet contractual obligations for the remainder of 2020 and beyond. And, while the current economic outlook remains uncertain, we take comfort that CAT was profitable even throughout the Great Financial Crisis. A shift toward leaner operations should make the company more defensible throughout changing environments, enabling it to persist in returning capital through share buybacks and dividend increases through the traditional business cycle. Shares yield 2.6%, while the company continues to deliver strong operating cash flow. Our Target Price for CAT is now $177.

Industrial workhorse **Cummins Inc.** (CMI – $219.89) produced another solid quarter, but like the markets in general, shares took a breather last week. Q3 financial results once again were way out in front of consensus analyst expectations. Adjusted EPS for the period was $3.47, more than 42% higher than forecasts looking for $2.44. Revenue of $5.12 billion was 14% above the consensus estimate. CMI increased share across its markets (33% North America HD, 17% China truck and 16% China Off-Highway). Also, Cummins said it produced record quarterly operating cash flow of $1.2 billion and total liquidity increased to $6.5 billion, including cash and marketable securities of $3.3 billion.

CEO Mark Linebarger commented, "Cummins successfully translated increased sales into strong profits and produced record operating cash flow during the third quarter. I want to thank our employees all over the globe once again for their dedication to our company and to our customers. Over the last six months we have faced both the most severe decline in quarterly sales in our history as well as the largest sequential increase. We continue to work safely and effectively through an incredibly challenging period, meeting our commitments to customers who provide products critical to the functioning of the global economy."

"We continue to advance existing products and invest in new technology while returning cash to shareholders," said CFO Mark Smith. "In October we announced a 3% increase to our quarterly dividend, which will make 2020 the eleventh consecutive year of increases to Cummins' dividend."

"We are encouraged by the recovery in demand across our markets in the third quarter," added Mr. Linebarger. "We will continue to manage cautiously through the remainder of the year as visibility on future orders remains low and the impact of the virus on economies around the world remains difficult to predict."

While the near-term is still quite uncertain, Cummins operates from a position of significant financial strength. We like that despite the headwinds, CMI has shown an ability to remain profitable while still investing in research and development to expand the product base and gaining market share for existing products. We continue to like our exposure to CMI, though we note that we are keeping an eye on the overall valuation. Shares yield a respectable 2.5% and now trade for more than 17 times NTM adjusted EPS forecasts. Our Target Price has been boosted to $242.

Small-cap fuel supplier **World Fuel Services** (INT – $21.05) reported Q3 financial results last week that included a bottom-line beat (EPS of $0.33 vs. $0.31 est.), while revenue was just shy of the consensus estimate. Respective aviation, marine and land segment gross profit was $97.6 million, $32.0 million and $84.3 million (year-over-year declines of 38%, 40% and 12%). Management attributes the declines primarily to the depressed demand for air travel and commercial activities due to the COVID-19 pandemic, lower fuel prices and a reduction in government-related activity in Afghanistan as a result of the ongoing drawdown of troops. Adjusted income from operations for the third quarter was $42 million, down significantly from the prior year, but an increase of 21% sequentially. INT used the sale of its Multi Service Payments Solutions business to significantly reduce its debt balance during the quarter, while leaving the balance sheet awash ib cash.

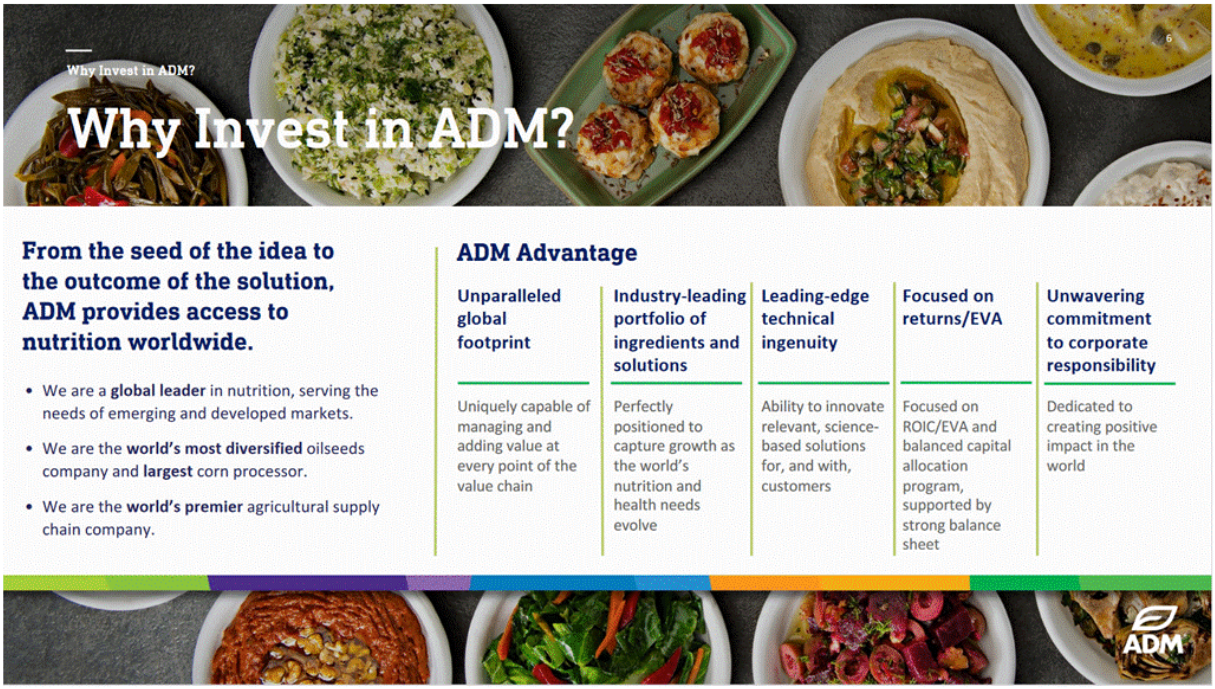
CEO Michael Kasbar commented on the firm's performance, "Despite the enduring nature of the pandemic related complexities in the world around us, we delivered a very respectable result in the third quarter. Our marine and aviation business will continue to add value through their differentiated offerings and remain a strategic operating partner for airlines, corporate aircraft operators and global shipping companies. I'm happy to report that our land fuels, natural gas, power and sustainability businesses are breaking into stride operationally and moving from local businesses to national and global operations following the evolution of our marine and aviation segments, which both started the same way."

Shares were all over the map last week, dropping as much as 20% at one point from where they started Monday morning only to recover half of the loss by the close on Friday. Although not atypical for a small-cap stock (especially one that operates in the beaten down energy sector), we realize that this type of volatility is likely to induce anxiety for some. But we think the stock is representative of a wide gap between uncertainty and actual risk. While operational difficulties and a challenged top line are unlikely to abate in a quarter, or maybe even two, we think the very strong balance sheet offers the resilience required to make it through the current environment. And from our perspective, the operating leverage present within World Fuel's business model presents a great opportunity even if conditions only just become less worse over our typical investment horizon of three to five years. Of course, undervalued shares can always become more undervalued, but INT now trades at 10 and 7 times the respective 2021 and 2022 analyst EPS estimates, a significant discount to the 5-year average of 14. The dividend yield is 1.9% and our Target Price is now $41.

Archer Daniels Midland (ADM – $35.12) saw its shares drop sharply Friday, even as the global agricultural concern reported a big bottom line beat in its Q3 financial results. The firm earned $0.89 per share (vs. the $0.71 est.) on $15.1 billion of revenue, but the latter figure badly trailed estimates of $16.7 billion. Improved biodiesel margins around the globe contributed to strong refining profits while strong starch demand in North America and cost controls benefitted the Carbohydrates segment.

CEO Juan Luciano said, "We delivered an outstanding quarter, and I am proud of our team's continued great performance. Across the enterprise, ADM colleagues are doing what it takes to help our customers and our company succeed and grow. Our strategic initiatives, combined with exceptional execution, are driving strong results across all of our businesses. Readiness is enhancing our performance, accelerating our work in areas ranging from operations to sales. Our strong cash generation is allowing us to retire higher-cost debt while retaining balance sheet flexibility. And Nutrition continues its impressive upward trajectory, delivering a fifth consecutive quarter of 20-plus percent year-over-year operating profit growth."

Mr. Luciano continued, "From our Strive 35 sustainability goals, to our partnership with Spiber to produce plant-based polymers, to the announcement of a significant expansion in probiotics with our new state-of-the art facility in Valencia, we're advancing our work to enrich the quality of life around the globe. We're excited about our future as we look ahead to another strong quarter, with positive momentum continuing through 2021."



We continue to like the longer-term global secular growth trends in agriculture, and we think that ADM's scale gives it advantages over regional competitors. We also note that the company continues to work to strengthen its balance sheet, reshape its portfolio and return cash to shareholders. ADM currently yields 3.7%. Our Target Price is now $58.

Shares of **Goodyear Tire** (GT – $8.28) plunged nearly 17% on Friday following the company's Q3 financial release. While results were materially down compared to the same period in 2019, top- and bottom-line numbers were actually better than the consensus analyst estimates. GT posted adjusted EPS of $0.10, well above expectations of a loss of $0.08 per share. Revenue for the period of $3.46 billion also came in slightly above expectations (+$110 million). Business suffered domestically from the closure of numerous Walmart Auto Care centers during the quarter but benefited from record consumer replacement volume in China. Cost-cutting initiatives helped the period and the company ended the quarter with $4.2 billion of cash and liquidity.

GT CEO Richard Kramer commented, "Our results reflect increasing momentum as the global tire industry recovered more quickly than we expected during the quarter, led by the Americas. We are taking every opportunity to continue building our business for the long term, while generating significant cost savings and free cash flow."

Like many industrial businesses, particularly those in the automotive space, the pandemic has dealt Goodyear an extraordinarily difficult hand. We had thought for a few quarters that we were close to the bottom of the business cycle for GT, given the challenges of preceding years, but the coronavirus added a whole new dynamic that GT didn’t need. That said, management efforts to preserve cash and optimize expenses and operations are notable, while conditions ought to improve somewhat in coming quarters. We have adjusted our Target Price for GT lower to $14.