Market Commentary Monday, December 14, 2020

December 13, 2020

EXECUTIVE SUMMARY

Newsletter Sales – One Stock for Two Portfolios
Week in Review – Modest Pullback
Health News – Skyrocketing Cases vs. Vaccine Approval
Econ Update – Mixed Numbers
Earnings – Profits Likely to Rise Significantly in 2021
Perspective – Brexit Still Playing Out 4.5 Years After the Vote
Dividends – Income from Stocks Remains Very Attractive
Sentiment – AAII & ICI Less Pessimistic
Fixed Income – Trillions of Dollars in Low Yielding Instruments
Stock News – Updates on DIS, BHP, KLIC, QCOM, AVGO & ORCL

Market Review

A little housekeeping before this week's missive. As discussed on our December 4 *Sales Alert*, we reduced our position in **Cohu** (COHU – $37.08) to around 1.2% in Buckingham Portfolio on Tuesday, December 8. We sold 160 shares of the semiconductor capital equipment maker at $38.01. We will use that same $38.01 price for the reduction to 1.2% via a 122 share sale of COHU in our hypothetical Millennium Portfolio.

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Given the sensational move higher since Halloween, we can't complain too much that stocks took a breather in the latest week. When all was said and done, it was a virtual dead heat between the Russell 3000 Value and Growth indexes, with respective losses of 0.65% and 0.64%, though the S&P 500 Pure Value index gave back some of its hefty recent winnings, dropping 1.73% and illustrating that it was a not-so-grand five days for inexpensively priced stocks.

THE PRUDENT SPECULATOR

VALUE RENAISSANCE

While five-plus months does not a trend make, it is nice to see a superb absolute and relative rebound in undervalued stocks, especially as there is plenty of runway remaining for a return to historical norms.

Total Returns Matrix

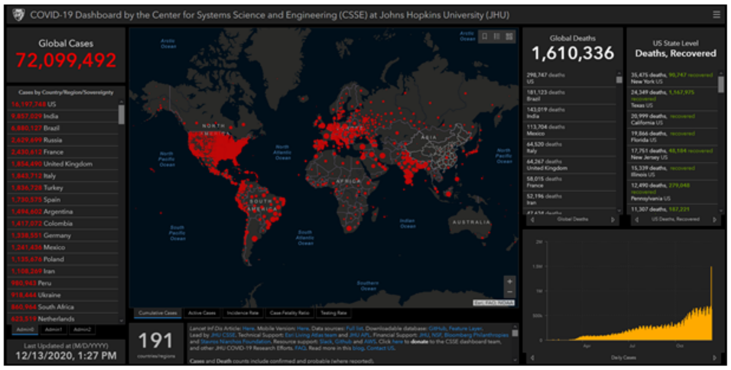
Last Week	Since 10.31.20	Since 9.30.20	Since 8.31.20	Since 7.9.20	Since 3.23.20	YTD	Last 12 Months	Last 24 Months	Last 36 Months	Last 60 Months	Name
0.35	2.48	2.58	2.21	4.52	11.69	8.45	8.79	17.57	15.21	24.52	Bloomberg Barclays Global-Aggregate Bond
0.35	0.84	0.39	0.33	0.34	6.11	7.21	7.01	17.74	16.81	23.13	Bloomberg Barclays US Aggregate Bond
-0.54	13.83	8.69	6.32	18.03	64.32	7.70	10.16	29.24	32.10	96.28	Dow Jones Industrial Average
-0.41	15.80	13.48	10.75	21.48	66.58	5.70	8.46	27.68	22.75	64.47	New York Stock Exchange Composite
-0.64	11.66	8.13	3.18	16.54	79.17	33.00	37.26	71.90	77.82	149.38	Russell 3000 Growth
-0.65	**16.67**	**15.45**	**12.47**	23.61	**63.07**	**1.33**	**3.89**	**21.44**	**17.92**	**59.75**	**Russell 3000 Value**
-0.65	14.05	11.59	7.53	19.90	72.07	17.63	21.01	46.47	47.04	102.64	Russell 3000
-1.05	17.05	16.34	13.39	25.97	77.00	10.82	13.82	35.62	33.36	83.90	S&P 500 Equal Weighted
-0.95	12.29	9.30	5.15	17.04	65.86	15.39	18.78	44.40	45.94	101.18	S&P 500
-1.07	10.36	6.96	1.95	15.06	72.71	29.00	32.99	60.77	69.53	133.28	S&P 500 Growth
-0.76	**15.29**	**12.99**	**10.28**	20.12	**56.77**	**0.03**	**2.78**	**25.84**	**21.29**	**66.19**	**S&P 500 Value**
-1.26	13.51	11.50	8.55	19.18	84.26	25.47	28.67	53.51	54.53	106.76	S&P 500 Pure Growth
-1.73	**23.21**	**25.32**	**20.65**	36.94	**83.96**	**-9.12**	**-6.48**	**7.86**	**1.36**	**44.03**	**S&P 500 Pure Value**
-2.14	12.13	6.32	3.83	26.62	39.63	-0.05	1.72	11.92	15.09	73.73	Berkshire Hathaway B

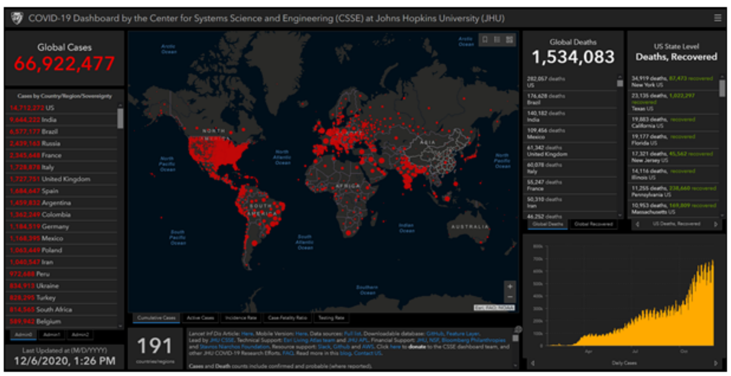
As of 12.11.20. Source Kovitz using data from Bloomberg

It wasn't the best of weeks on the health front, with COVID-19 taking more lives around the world,…

THE PRUDENT SPECULATOR

COVID-19 GLOBAL CASES AND DEATHS ACCELERATING





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

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 5.2 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 298,000 fatalities. While deaths obviously lag cases, and the United States is experiencing a nationwide spike in those diagnosed with the virus, the weekly increase in the worldwide fatality count rose by more than 76,000 from the 61,000 range four week's prior, though the "confirmed case" mortality rate of 2.23% continues to decrease.

…and worries about spiking cases and hospital capacity dominating the headlines in the U.S., even as the FDA late Friday approved a vaccine from the **Pfizer** (PFE – $41.12) / BioNTech collaboration.

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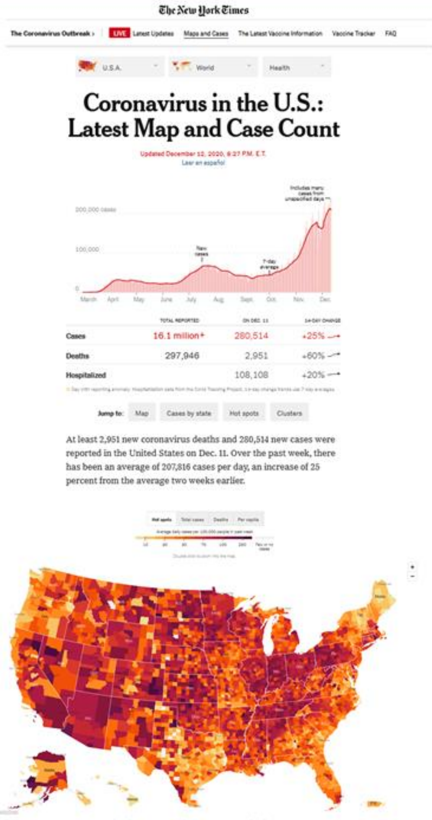
COVID-19 CASE/HOSPITALIZATION/DEATH COUNTS SOAR; VACCINE APPROVED



The New York Times

The Coronavirus Outbreak › LIVE Latest Updates Maps and Cases The Latest Vaccine Information Vaccine Tracker FAQ

U.S.A. World Health

Coronavirus in the U.S.: Latest Map and Case Count

Updated December 12, 2020, 6:27 P.M. E.T.
Leer en español

	TOTAL REPORTED	ON DEC. 11	14-DAY CHANGE
Cases	16.1 million+	280,514	+25%
Deaths	297,946	2,951	+60%
Hospitalized		108,108	+20%

Jump to: Map Cases by state Hot spots Clusters

At least 2,951 new coronavirus deaths and 280,514 new cases were reported in the United States on Dec. 11. Over the past week, there has been an average of 207,816 cases per day, an increase of 25 percent from the average two weeks earlier.

Hot spots Total cases Deaths Per capita

Books of the Year 2020 REVIEW

WSJ

THE WALL STREET JOURNAL WEEKEND

REGINA KING WSJ. MAGAZINE

DOW JONES | News Corp SATURDAY/SUNDAY, DECEMBER 12 - 13, 2020 - VOL. CCLXXVI NO. 139 WSJ.com ★★★★ $5.00

Covid-19 Vaccine Cleared by FDA

What's News

World-Wide

A Covid-19 vaccine from Pfizer and BioNTech was the first to gain the federal government's permission to go into use in the U.S., a landmark step in efforts to beat back the pandemic. A1

◆ A laboratory mistake has set back development of Sanofi and GlaxoSmithKline's vaccine, delaying potential authorization by several months. A7

◆ The Supreme Court rejected Texas's long-shot bid to void 20 million votes in four other states, clearing the path for Biden's victory when presidential electors meet Monday. A3

◆ The Senate passed a stopgap measure to fund the government for one week, giving lawmakers more time to negotiate a coronavirus-relief agreement and wrap up a broader spending package. A5

◆ A bipartisan defense-policy bill was approved by the Senate despite Trump's objections, with support for the legislation exceeding the two-thirds majority needed to override a veto. A3

◆ Biden introduced more of his cabinet picks and key staffers, as progressives expressed mixed reactions to his choices. A4

◆ Jimmy Lai, the publisher of a pro-democracy newspaper in Hong Kong, was charged with foreign collusion under a new security law. A10

Business & Finance

◆ The initial public offerings this week of DoorDash and Airbnb cap a string of listings that have helped make this

Pfizer-BioNTech shots expected to be given days after regulator sped the authorization

By Jared S. Hopkins And Thomas M. Burton

A Covid-19 vaccine from Pfizer Inc. and partner BioNTech SE was the first to gain the federal government's permission to go into use in the U.S., a landmark step in efforts to beat back the pandemic.

The Food and Drug Administration's authorization of the shot on Friday, following its record-setting swift development, clears the way for administration of inoculations to begin within a day or two.

The decision clears use of the shots in people 16 years and older, including the elderly.

President Trump, in a video posted on Twitter Friday night, called the vaccine a "medical miracle." "This is one of the greatest scientific accomplishments in history," he said, speaking from the Oval Office. "It will save millions of lives and soon end the pandemic once and for all."

The president said the vaccine is safe and he said it will be free for all Americans.

The FDA's first green light for a Covid-19 vaccine comes little more than a week after a similar authorization in the U.K. It follows a 44,000-person study, which found that the shot was 95% effective at preventing symptomatic Covid-19 and was generally safe.

Now, the U.S. begins its largest vaccination campaign ever, bringing together governments, small and big hospitals, as well as retail pharmacy chains with the goal of vaccinating hundreds of millions of people swiftly.

The daunting task will in-

Behind Pfizer's Record Effort

To be sure, coronavirus developments here at home are sure to get worse before they get better, with new business shutdowns in Los Angeles, New York City and elsewhere headwinds sure impact the labor market,…

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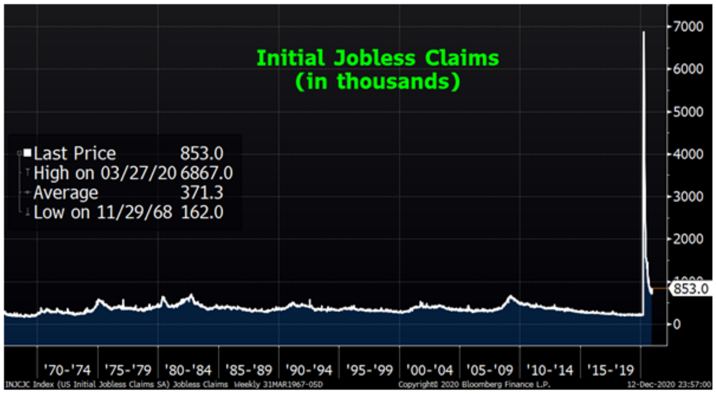
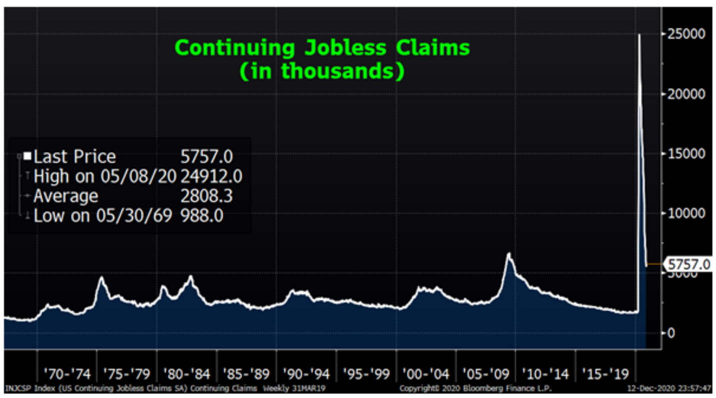
DISMAL JOBS DATA





The jobs market took a turn for the worse in the latest week, with new applications for unemployment benefits soaring to a seasonally adjusted and much-worse-than-expected 853,000 for the period ended Dec. 5, up from 716,000 during Thanksgiving week. Also, continuing jobless claims filed through state programs rose by 230,000 to a seasonally adjusted 5.76 million, though that tally was not far off the pandemic low.

…even as the economy has held up remarkably well,…

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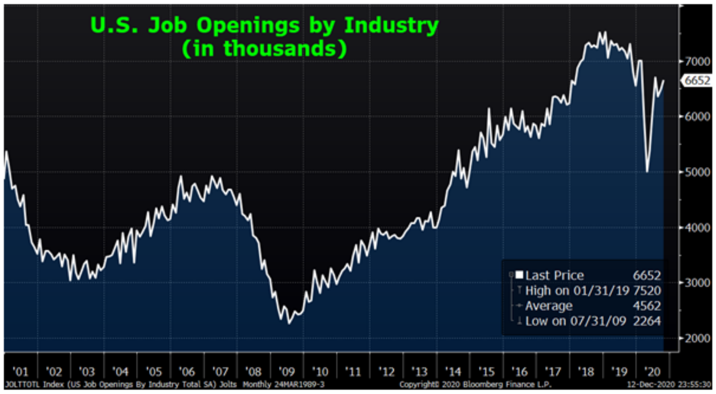
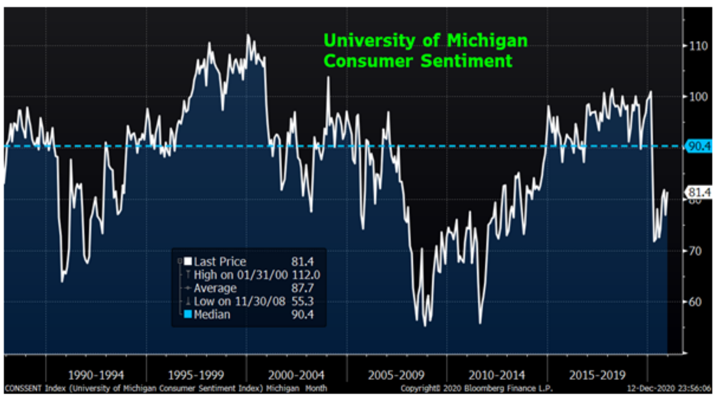
IMPROVING ECONOMIC NUMBERS





A hefty 5.8 million people were rehired or found new jobs during October and there were 6.65 million job openings during the month, but the labor picture remains problematic, especially with renewed COVID-19-related business shutdowns. Still, news on virus vaccines propelled the preliminary Univ. of Michigan gauge of consumer sentiment this month to a better-than-expected 81.4, rising 4.5 points from a final reading of 76.9 in November.

…with solid GDP growth likely for the current quarter,…

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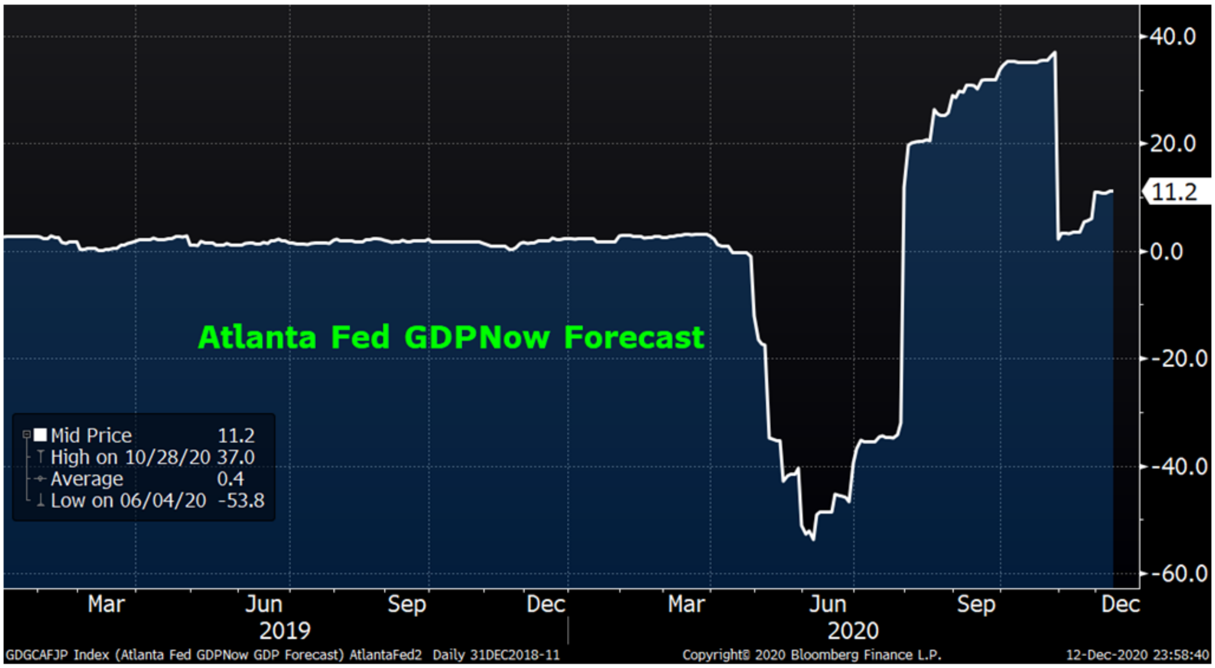
HEALTHY U.S. GDP GROWTH EXPECTED IN Q4

While the quarter just completed saw a massive economic expansion, following an epic contraction in Q2, the Atlanta Fed is now projecting a healthy 11.2% increase in GDP in Q4 GDP on an annualized basis.



…and corporate profits poised to jump in 2021.

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EPS PLUNGE IN 2020 BUT REBOUND IN 2021

Q3 earnings reporting season was very good, relative to analyst projections that had been a little too pessimistic in their top- and bottom-line estimates. Of course, full-year 2020 COVID-19-impacted EPS likely will be lousy, 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	$44.71	$166.20
9/30/2021	$43.80	$158.08
6/30/2021	$40.16	$152.31
3/31/2021	$37.53	$138.94
12/31/2020	$36.59	$120.91
9/30/2020	$38.03	$123.50
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 12.09.20

While we are braced, as always, for downside volatility, especially as a "No-Deal" Brexit is the latest global bogeyman to potentially spook the markets,…

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KEEP CALM AND CARRY ON

Incredibly, it has been more than four years since the worrisome Brexit vote and since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few other frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	225%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	181%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	205%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%	80%	156%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%	87%	157%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%	65%	121%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%	51%	99%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%	24%	47%	83%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%	35%	60%	81%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%	32%	50%	78%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%	35%	60%	74%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%	32%		82%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%	25%		77%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%	42%		95%
Brexit Vote	6/23/2016	2,113.32	2%	7%	15%	40%		73%
Trump Victory	11/8/2016	2,139.56	7%	12%	21%	45%		71%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**12%**	**37%**	**66%**	**116%**
Source: Kovitz Investment Group using data from Bloomberg. As of 12.11.20								

…we continue to believe that equities are very attractive, especially from an income perspective,…

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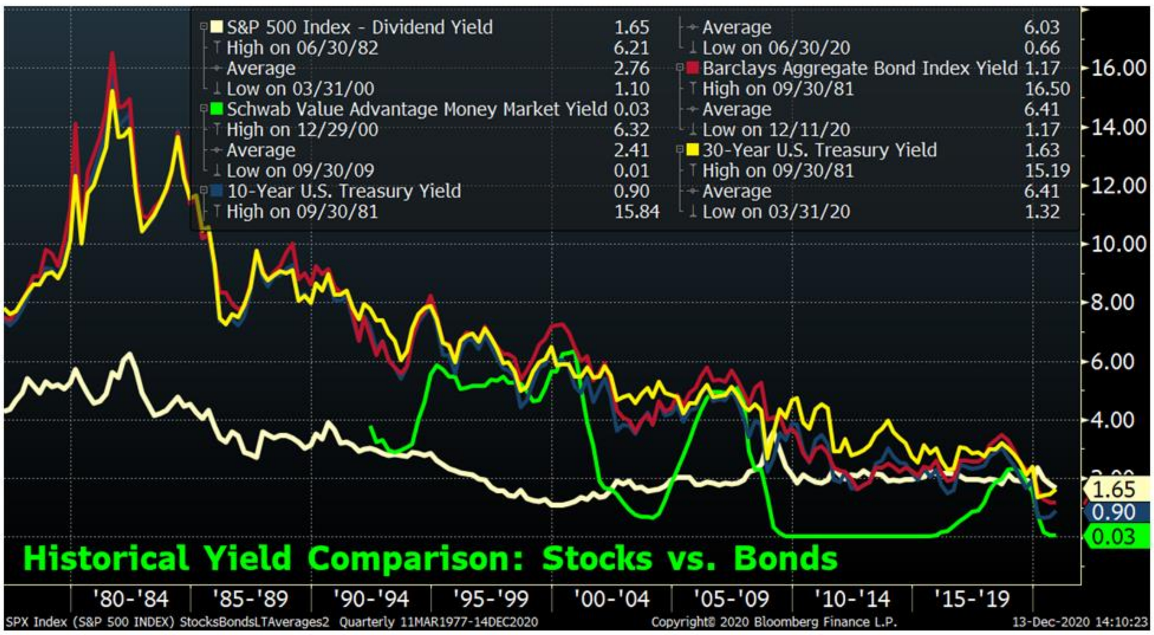
EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.65%) 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 50 times the yield of a "generous" Money Market Fund**!



…when one considers that dividends historically have risen over time, while coupons on fixed income instruments generally are fixed.

THE PRUDENT SPECULATOR

DIVIDENDS PROVIDE HANDSOME INCOME

Dividends are never guaranteed, as we are seeing today in the wake of COVID-19 and the Great Lockdown, but the historical data show that Corporate America has a long history of raising payouts. In fact, per share dividends for the S&P 500 are even likely to be higher this year.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2020 (as of 12.10.20)	272	11	26	42
2019	355	6	7	0
2018	374	6	3	0
2017	351	5	9	2
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
Source: Standard & Poor's.				

S&P 500 DIVIDENDS PER SHARE	
2021 (Est.)	$61.40
2020 (Est.)	$59.00
2019	$58.69
2018	$53.86
2017	$50.47
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
Source: Bloomberg. As of 12.11.20	

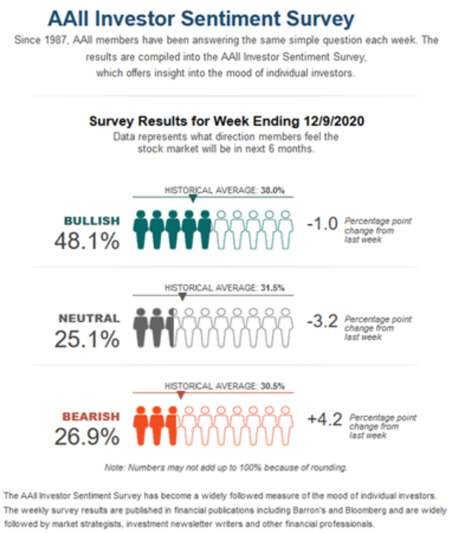
True, we respect that investors have become a bit more optimistic in their attitude toward stocks, which some view as a negative from a contrarian perspective,…

THE PRUDENT SPECULATOR

A LITTLE BIT OF ENTHUSIASM FOR U.S. STOCKS

Folks on Main Street became a bit less optimistic last week, as the latest AAII Sentiment Survey saw the number of Bulls dip 1.0 points to an elevated 48.1% but the number of Bears (26.9%) is not far from the historical average.

While the affection seemingly has waned over the last two weeks, investors have stopped pulling tons of cash out of U.S. stocks, though the love affair with fixed income continued, per the latest data on mutual and exchange traded fund flows from the Investment Company Institute.



Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	12/2/2020	11/24/2020	11/18/2020	11/11/2020	11/4/2020
Total Equity	-8,907	2,137	-2,420	22,564	-12,889
Domestic	452	-487	5,600	20,036	-11,641
World	-9,360	2,624	-8,020	2,528	-1,248
Hybrid	32	-991	-1,623	785	-3,450
Total Bond	22,569	13,933	17,146	18,517	-3,269
Taxable	20,761	11,496	14,600	16,553	-2,841
Municipal	1,808	2,437	2,547	1,965	-428
Commodities	-1,191	-1,604	-2,015	-267	-272
Total	12,502	13,475	11,088	41,599	-19,880

Source: Investment Company Institute

…but the historical evidence shows that equities, on average, still have appreciated over the ensuing one-month, three-month and six-month periods when the American Association of Individual Investors (AAII) voters are showing heightened levels of Bullishness,…

THE PRUDENT SPECULATOR

AAII SENTIMENT – ELEVATED BULLISHNESS

While the evidence would suggest that it is better for future market performance when folks are overwhelmingly Bearish, stocks have still gained ground, on average, over the ensuing one-, three- and six-month spans no matter the AAII Bull-Bear Spread decile. The latest reading of +21.2 is on the higher end of the historical spectrum, though this contrarian indicator works best when there is excessive pessimism.

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 7.7										
BELOW	-54.0	7.7	870	0.27%	0.23%	1.27%	1.14%	3.57%	3.18%	6.65%	5.90%
ABOVE	7.8	62.9	870	0.16%	0.14%	0.46%	0.37%	1.83%	1.58%	4.54%	4.07%
	Ten Groupings of 1735 Data Points										
1	-54.0	-15.2	174	0.59%	0.53%	2.29%	2.05%	5.82%	5.27%	9.57%	8.34%
2	-15.1	-7.5	174	0.29%	0.26%	0.86%	0.73%	3.71%	3.34%	6.46%	5.70%
3	-7.5	-1.6	174	0.33%	0.30%	1.53%	1.44%	3.28%	2.89%	6.92%	6.29%
4	-1.6	3.0	186	0.09%	0.06%	1.10%	1.01%	2.73%	2.38%	6.06%	5.56%
5	3.0	7.7	162	0.03%	0.00%	0.53%	0.43%	2.25%	1.99%	4.07%	3.52%
6	7.8	12.0	179	0.11%	0.09%	0.54%	0.42%	1.80%	1.56%	5.46%	5.08%
7	12.0	16.3	170	0.17%	0.15%	0.54%	0.44%	2.26%	2.00%	4.97%	4.43%
8	16.4	22.0	181	0.18%	0.16%	0.67%	0.60%	1.93%	1.66%	5.51%	5.09%
9	22.0	29.2	166	0.07%	0.05%	0.25%	0.16%	1.83%	1.54%	4.10%	3.51%
10	29.2	62.9	174	0.27%	0.25%	0.26%	0.19%	1.36%	1.13%	2.61%	2.17%

From 07.31.87 through 12.10.20. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

…while a few weeks of inflows into domestic exchange traded and mutual funds hardly reverses six years of movement in the other direction.

THE PRUDENT SPECULATOR

BONDS REMAIN STUNNINGLY POPULAR

With the S&P 500 having bounded back from the March 23, 2020 lows, many think folks are infatuated with U.S. equities, but data from the ICI show that Bonds, aside from a big hiccup in March, continue to garner nearly all the love, despite record low interest rates.

Investment Company Institute

Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows

Millions, U.S. dollars

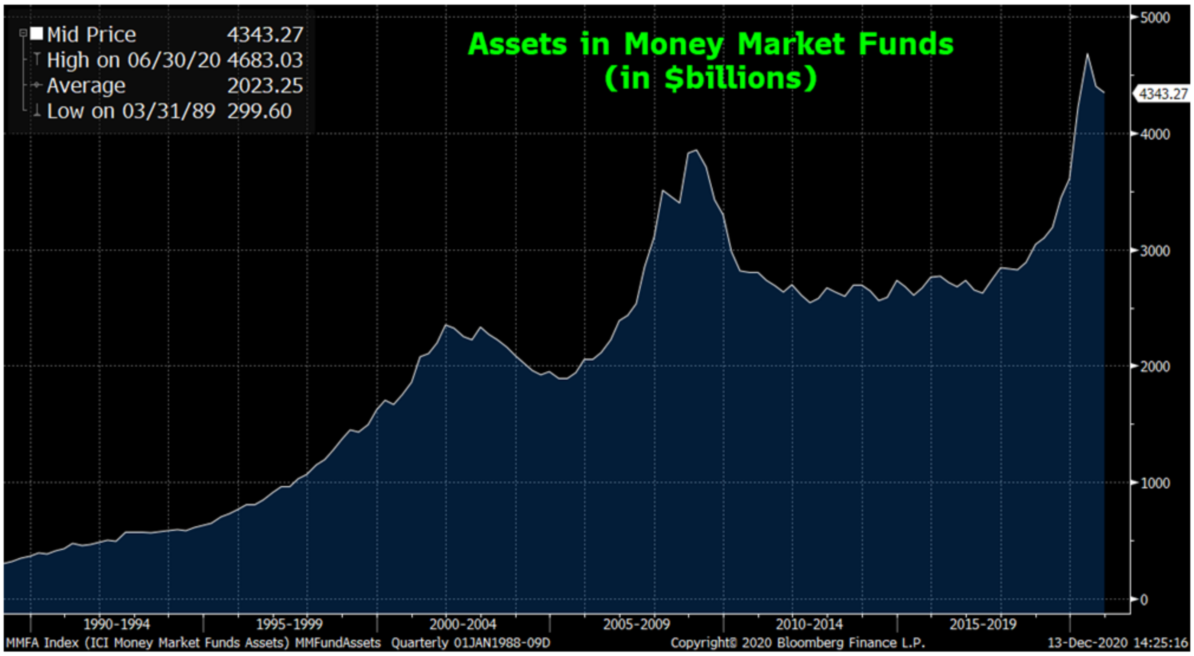
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Jul-16	292	33,575	Jan-18	10,778	46,287	Jul-19	-7,889	44,811
Feb-15	5,547	30,321	Aug-16	-9,956	30,859	Feb-18	-41,444	2,706	Aug-19	-29,909	22,304
Mar-15	-1,494	4,905	Sep-16	-5,713	24,669	Mar-18	-22,152	14,148	Sep-19	-4,650	38,482
Apr-15	-34,681	11,027	Oct-16	-23,109	13,855	Apr-18	-7,403	24,176	Oct-19	-24,646	43,187
May-15	-17,287	5,010	Nov-16	22,993	-13,289	May-18	10,068	11,749	Nov-19	-11,677	44,480
Jun-15	-7,023	6,324	Dec-16	18,859	-4,142	Jun-18	-21,004	16,995	Dec-19	-27,502	50,733
Jul-15	-14,864	-1,255	Jan-17	5,097	31,037	Jul-18	1,007	22,495	Jan-20	-24,546	73,855
Aug-15	-18,569	-18,122	Feb-17	17,613	33,991	Aug-18	-6,660	17,219	Feb-20	-28,222	25,064
Sep-15	-4,725	-10,849	Mar-17	9,411	36,562	Sep-18	886	18,526	Mar-20	-7,487	-273,714
Oct-15	-807	15,397	Apr-17	-8,266	22,064	Oct-18	-9,657	-27,700	Apr-20	2,662	14,672
Nov-15	654	-5,573	May-17	-10,725	33,070	Nov-18	2,783	-7,459	May-20	-20,931	73,168
Dec-15	476	-25,043	Jun-17	-7,944	29,372	Dec-18	-28,953	-49,512	Jun-20	-24,824	100,075
Jan-16	-27,222	7,686	Jul-17	-12,518	29,139	Jan-19	-21,195	29,308	Jul-20	-46,515	98,489
Feb-16	-9,108	11,915	Aug-17	-22,771	25,078	Feb-19	3,632	45,138	Aug-20	-57,594	84,113
Mar-16	7,711	29,296	Sep-17	-9,775	33,440	Mar-19	-3,654	38,412	Sep-20	-28,899	50,998
Apr-16	-12,610	22,114	Oct-17	3,166	36,110	Apr-19	-5,307	40,565	Oct-20	-52,476	63,894
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332	Nov-20	13,960	68,896
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	**Totals:**	**-781,135**	**1,496,568**

And with all that money hiding out in the perceived safety of bond funds, not to mention a massive $4.3 trillion parked in money market funds,…

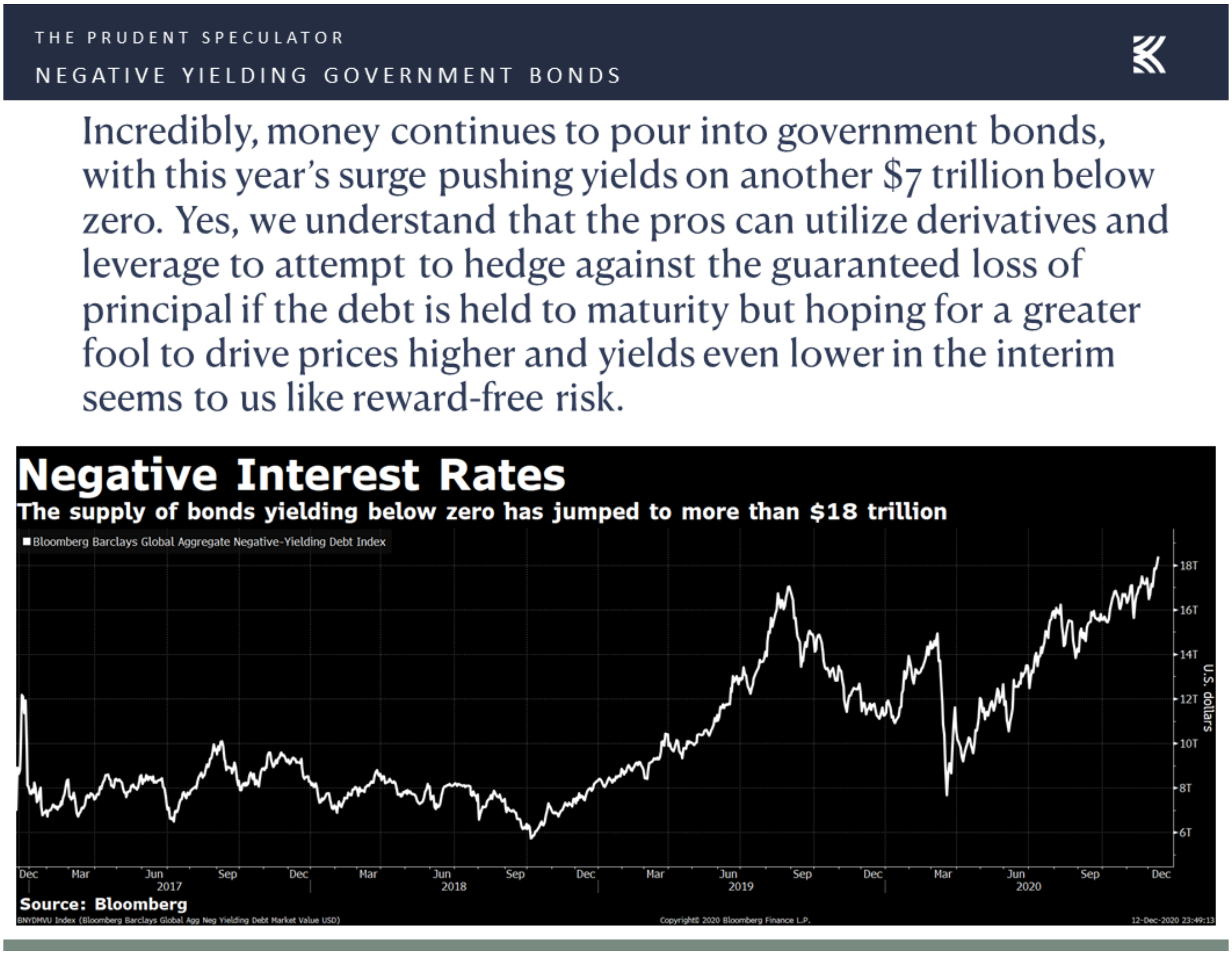
THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have never been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.



…and a whopping $18 trillion resting in negative yielding government debt,…



…we think that there is plenty of dry powder to fuel a continued equity market advance.

Stock Updates

Jason Clark, Chris Quigley and Zach Tart look at 6 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*.

Shares of **Walt Disney** (DIS – $175.72) took off like a rocket on Friday as the company announced at its latest Investor Day that it had already met its 2024 total subscriber targets for its steaming platforms. The film, entertainment and theme park powerhouse now boasts 86.8 million subscribers to its flagship product Disney+ worldwide and now expects between 300 million to 350 million total across Disney+, Hulu and ESPN+. Such growth would put its subscriber totals in the ballpark of streaming competitor Netflix, whose rise in customer totals has slowed in recent quarters as it approached 200 million globally. Management says it plans to reinvest incremental revenue generated from subscriber growth back into content and expects to achieve profitability by fiscal 2024.

THE PRUDENT SPECULATOR

DIS – OFF THE CHARTS GROWTH IN DISNEY+

Disney also plans to raise the price of Disney+ in March. CFO Christine Mary McCarthy elaborated, “We clearly have an incredible opportunity to build a substantial global subscriber base. But we also believe we have the opportunity to increase Disney+ pricing given the additional value we will be adding to the service. So in March of 2021, we will be increasing the U.S. price of Disney+ by $1 to $7.99 per month…These price increases reflect an increase in the underlying value of the Disney+ product offering as well as the inclusion of Star general entertainment content in many markets.”

We appreciate how much control this gives the company over distribution of its intellectual property and applaud management for doubling down on its streaming services. Another critical spoke in Disney’s flywheel, we expect a COVID-19 vaccine to spring the theme park business back into action in 2021 after having been virtually on pause for much of the current year. The 13.6% spike to close out last week drove year-to-date share performance to 21.5%. And while the stock isn’t as inexpensive as it was a quarter ago, we know how the market has fallen in love with Netflix. Our Target Price for DIS has been bumped to $190.

Commodities prices have been on a tear, with a rally in iron ore over the past month pushing the metal to a seven-year high and boosting shares of Australian natural resource miner **BHP Group** (BHP – $64.52) up near our Target Price. A cut in guidance for production from Vale as well as strong demand from Chinese steel mills, amidst worries about trade tensions between Australia and the Middle Kingdom, has pushed prices higher. And, the latest move up in iron ore came after BHP rival Rio Tinto destroyed two ancient rock shelters (Aboriginal heritage site) at Juukan Gorge in the north west part of the country, sparking a major government inquiry, costing Rio's CEO his job and calling into question approvals for and timing of mining projects in Western Australia.

While we know that commodities prices are inherently volatile, and BHP and other miners will face questions about some of their projects as we go forward, we have pushed up our Target Price to $68. BHP still trades for a reasonable 15 times the fiscal '21 earnings estimate and the present pre-tax dividend yield is a substantial 3.4%, so we are comfortable continuing to hold our shares for the time being.

No earnings to report until late January, but **Kulicke & Soffa Industries** (KLIC – $33.67) has been bumping up against our published Target Price, but we expect to hold our shares for the time being, despite the somewhat stretched valuation. We think KLIC is firing on all cylinders and has seen very little impact from the pandemic. The company has come a long way during our ownership, earning just $0.28 in fiscal 2019, climbing to $0.95 in 2020 and projecting to grow EPS to $1.34 in 2021 and $1.72 in 2022.

Kulicke's packaging devices and assembly solutions are used in a diversified list of businesses including automotive, consumer, communications, industrial and computing. We think the company's strong balance sheet, which has $530 million of cash and $24 million of debt (short-term and long-term lease liabilities), provides plenty of ability to make acquisitions and return capital to shareholders. In fact, management just bumped its quarterly dividend last week from $0.12 per share to $0.14, resulting in a 1.7% yield. Of course, it's not our highest payer, but it is a 17% boost. KLIC shares have gained 26% this year including dividends and our revised Target Price is $37.

Qualcomm (QCOM – $144.28), the maker of communication chipsets, endured a sharp 7.4% pullback on Friday as **Apple** (AAPL – $122.41) announced its progress to design its own modems in-house. One might have suspected such news wasn't very far off given the iPhone maker's purchase of **Intel's** (INTC – $49.73) smartphone modem business almost a year-and-a-half ago. Of course, it is hardly desirable when a customer becomes a competitor, but even if Apple is successful at this venture, which will hardly happen overnight, the two firms will need to find a way to work together given QCOM's tremendous portfolio of intellectual property within cellular applications. As evidence of the latter company's clout, we remind of the settlement between the parties in 2019 which led to Apple paying Qualcomm $4.5 billion and using QCOM chips in its latest round of iPhones.

Despite the Street's reaction last week, QCOM shares have rallied more than 60% year-to-date, so we can't complain about a little profit-taking. And, though the valuation is no longer as inexpensive as it once was, we continue to think that the company deserves a higher multiple than the historical average might indicate due to the drastic reduction in litigation and tremendous global 5G demand. After all, EPS is expected to nearly double by fiscal 2023 from the $4.19 just posted in fiscal 2020. QCOM shares yield 1.8% and our Target Price now stands at $168.

Broadcom (AVGO – $405.82) beat analyst expectations for fiscal Q4 2020. AVGO earned an adjusted $6.35 per share, versus the analyst consensus of $6.25. Revenue was $6.47 billion, versus $6.43 billion that was projected, while the company's operating margin was 23.6%. Management attributed the top- and bottom-line beats to strength in cloud data center spending and capital expenditures by telecom companies, who are quickly upgrading Edge and core networks. Infrastructure Software revenue (this segment includes Symantec) grew 36% year-over-year, and the Wireless segment was boosted by a new generation of flagship phone for a North American customer, which is most likely referring to the latest batch of Apple iPhones.

CEO Hock Tan highlighted the successes AVGO is seeing as a result of several major acquisitions, "After two years integrating CA onto our platform, Q4 '20 revenue was up 5% year-on-year. For Symantec, if you exclude services and hardware, Q4 product revenue of $380 million was up 10% from Q1 fiscal '20, which was obviously our first quarter after acquisition…this growth in core accounts has obviously more than offset the plain decline in services and attrition of accounts outside our core enterprise customers. That's how we expect to sustain our core software business long term albeit at low to mid-single-digit percentage revenue growth. But we intend to drive to a financial outcome that is consistent with the Broadcom model."

Mr. Tan added for fiscal Q1, "On a year-on-year basis, we expect CA and Symantec software revenue to continue to grow in the mid-single digits. However, in Q1 fiscal '21, we expect Brocade to decline high single digits, consistent with softness in enterprise markets, resulting in our infrastructure software segment revenue to be flat to perhaps up low single-digit percentage year-over-year. In summary, we expect Q1 consolidated net revenue of $6.6 billion, up approximately 13% year-over-year, all derived organically. Today, we are in a unique situation. We started fiscal 2021 with record backlog that has now grown to over $14 billion today. But the timing of this conversion of backlog to revenue won't be driven by a supply chain which continues to be tight."

Broadcom cut its total debt load by nearly $3 billion to $41.1 billion in Q4, after having run it up to make acquisitions. AVGO ended the quarter with $7.6 billion of cash on hand and $12.6 billion of liquidity, which may prove helpful for opportunistic acquisitions. Even after Broadcom's 33% total return this year, shares still trade for very reasonable valuation metrics, including a forward P/E around 15.5 and free cash flow yield near 7%. AVGO sports a very generous dividend yield of 3.6%, which was just hiked by $0.35 quarterly. Our Target Price has been raised to $459.

System software firm **Oracle** (ORCL – $60.61) posted earnings per share of $1.06, versus the $1.00 estimate, in fiscal Q2 2021. ORCL had sales of $9.80 billion (vs. $9.79 billion est.). Oracle reported strong demand for its Fusion ERP application suite, which allows companies to have more data, faster. Oracle uses Fusion ERP internally and said the company's Q2 report for the entire global operation was complete ten days after the quarter ended, which is the fastest in the S&P 500 (according to Oracle) and 21 days faster than average. Operating income grew 12%, the company's best growth in 8 years, and total cloud services and license support revenue was $7.1 billion, a figure that has doubled in the last 4 years.

Chairman and Founder Larry Ellison commented, "We just completed a great quarter, but the quarter would have been even better if we would have had more — and we would have had more revenue growth if we had not been capacity constrained in OCI during Q2. There was more demand than we have supply. To remedy this capacity shortfall, we are adding OCI capacity and building new OCI data centers as fast as we can. We are now up to 29 regional data centers around the world, more than AWS. OCI added customers and grew revenue at a rate well in excess of 100% year-over-year in Q2. The Oracle Autonomous Database was up over 60%."

CEO Safra Catz added guidance, "Assuming the current exchange rates remain the same as they are now, currency should have a 1% positive impact on total revenue, maybe even a little bit more like 1.5-ish and potentially, a $0.03 positive effect on EPS for Q3. Total revenues are expected to grow from 1% to 3% in constant currency and are expected to grow between 2% to 4% in USD. Adjusted EPS in constant currency is expected to grow 10% to 14% and be between $1.06 and $1.10 in constant currency, and adjusted EPS in USD is expected to grow between 13% and 17% and be between $1.09 and $1.30 in USD."

ORCL also announced that it will move its corporate headquarters to Austin, Texas. The company said the relocation is part of a "more flexible employee work location program" and is the latest corporate move out of the state. Given Oracle's global revenue stream and presence around the country, we do not think the move will have major tax implications for the company at present. Oracle repurchased 68 million shares for a total of $4 billion throughout the quarter, bringing purchases over the last 12 months to 338 million shares for a total of $18.2 billion and reducing the total share count by nearly 42% over the past 10 years. Oracle will keep its $0.24 quarterly dividend payment, consistent with the amount paid since early 2019.

We remain encouraged by successes and we believe that ORCL still has the right leadership team in place as the business adapts to a dynamic cloud business. We won't soon forget the painful shift to a recurring license model, but we have been pleased to see Oracle's cloud offerings continue to grow in capability, deployment and, ultimately, revenue. We have always liked ORCL's relentless pursuit of the #1 spot in any competition. We think that ORCL shares remain attractive, trading for around 13 times forward earnings and currently yielding 1.6%. Our Target Price has been boosted to $73.