

Market Commentary Monday, January 11, 2021

January 11, 2021

EXECUTIVE SUMMARY

Newsletter Trades – Sold ALB & Added 5 Stocks to Three Portfolios
Politics – COVID-19 Pushed Off the Front Page
Health News – Rising Cases, Hospitalizations & Deaths
Week In Review – Great Start to 2021
Value vs. Growth – Wide Valuation Gap
Washington Historical Evidence – “D” in the White House and “D” Control of Congress
Econ Data – Mixed Numbers in Latest Week
Rising Rates – Bad for Bonds...Not so Bad for Stocks
Fund Flows – Money Continues to Pour in to Fixed Income
Valuations – Managed Account Strategy Metrics
Disconcerting Headlines – Stocks Have Overcome Everything...in the Fullness of Time
Value Rally – 25 Weakest Performers & 25 Large Advancers So Far in 2021
Stock News – Updates on CHNG, GBX, AYI & MU

Market Review

A little housekeeping before this week's missive. As discussed on Tuesday's *Sales Alert*, we sold 90 and 38 shares **Albemarle** (ALB – \$184.10) respectively held in TPS Portfolio and Buckingham Portfolio on Thursday, January 7, at \$182.3190. We will use that price to close out 32 Albemarle shares sold in Millennium Portfolio.

Also, on Thursday, January 7, and as indicated in the January edition of *The Prudent Speculator*, we bought 178 shares of **Big Lots** (BIG – \$44.48) at \$44.7819 for Buckingham Portfolio. In addition, in our hypothetical accounts, we added 85 shares of **Waste Management** (WM – \$118.60) at \$117.50 to Millennium Portfolio, as well as of 646 shares of **Fifth Third Bancorp** (FITB – \$31.18) at \$30.95; 155 shares of **Total SE** (TOT – \$45.90) at \$45.52 and 25 shares of **International Business Machines** (IBM – \$128.53) at \$130.04.

While events in Washington,...



With a traumatic 2020 in the rear-view mirror, we might have thought the new year would be less dramatic, but such hardly was the case during the inaugural week of 2021.



January 5, 2021



January 6, 2021



January 7, 2021

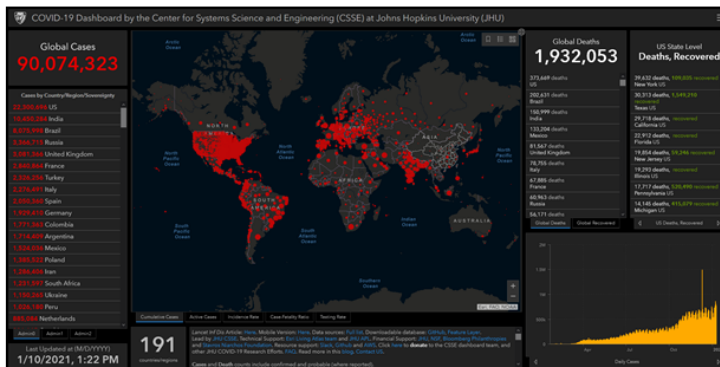


January 8, 2021

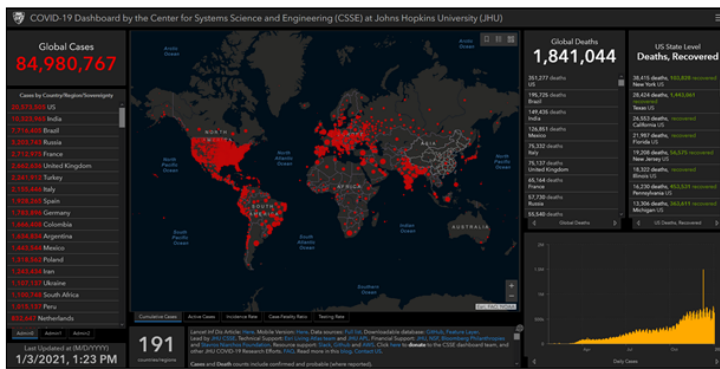


January 9, 2021

...generally pushed the surge in COVID-19 cases, hospitalizations and deaths off of the front page,...



With access to testing higher, the weather having turned colder and folks not as careful in month nine or ten of the pandemic, not to mention the get-togethers of family and friends over the Holidays, there was a jump of 5.1 million in global COVID-19 confirmed cases in the latest week and the U.S. is now up to more than 373,000 fatalities. Deaths obviously lag cases, and the United States, the U.K. and Europe are experiencing spikes in those diagnosed, while the weekly increase in the worldwide fatality count rose last week by 91,000, up from 79,000 the week prior, and the “confirmed case” mortality rate of 2.14% fell again.



<https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd4029423667b489e9cfc>

...the equity markets turned in a very good first week of 2021, with Value stocks continuing the leadership witnessed over the second half of 2020.



While six 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	2021 YTD	Since 10.31.20	Since 7.9.20	Since 3.23.20	Last 12 Months	Last 2 Years	Last 3 Years	Last 5 Years	Name
-0.46	-0.46	2.71	4.75	11.93	8.84	15.83	14.92	24.84	Bloomberg Barclays Global-Aggregate Bond
-0.94	-0.94	0.17	-0.32	5.40	6.41	15.71	16.15	22.28	Bloomberg Barclays US Aggregate Bond
1.66	1.66	17.89	22.24	70.18	10.70	37.04	31.89	114.55	Dow Jones Industrial Average
3.10	3.10	20.94	26.89	73.99	10.18	34.74	23.65	79.53	New York Stock Exchange Composite
1.53	1.53	17.86	23.01	89.11	38.02	84.69	80.47	176.97	Russell 3000 Growth
3.14	3.14	22.17	29.44	70.76	6.49	30.17	20.25	74.70	Russell 3000 Value
2.31	2.31	19.92	26.06	80.91	22.81	57.19	49.58	123.37	Russell 3000
2.89	2.89	22.63	31.97	85.43	16.06	44.88	35.16	101.34	S&P 500 Equal Weighted
1.88	1.88	17.38	22.35	73.38	19.76	54.40	47.52	119.84	S&P 500
1.40	1.40	15.78	20.71	81.19	33.17	72.70	71.50	157.20	S&P 500 Growth
2.42	2.42	19.66	24.67	62.71	4.11	33.38	22.13	79.26	S&P 500 Value
3.65	3.65	21.59	27.66	97.38	32.84	67.81	59.08	135.24	S&P 500 Pure Growth
4.75	4.75	29.65	44.10	93.57	-3.72	14.16	3.07	59.71	S&P 500 Pure Value
0.93	0.93	15.91	30.89	44.35	3.56	19.21	15.43	82.37	Berkshire Hathaway B

As of 01.08.21. Source Kovitz using data from Bloomberg

Of course, folks should not be surprised to see Value at the top of the performance tables, given the massive long-term total-return edge these kinds of stocks have enjoyed dating back to the 1920s,...



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%	111.7%	981	27	3.4	3/23/2020	1/8/2021
17.5%	67.1%	573	39	2.3	3/23/2020	1/8/2021
15.0%	66.8%	558	45	2.0	3/23/2020	1/8/2021
12.5%	44.4%	335	72	1.3	3/23/2020	1/8/2021
10.0%	35.0%	245	98	0.9	3/23/2020	1/8/2021
7.5%	23.6%	148	157	0.6	9/23/2020	1/8/2021
5.0%	14.7%	72	306	0.3	10/30/2020	1/8/2021

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 1.8.21. 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 an 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	12.8%	26.0%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.4%	18.1%
Non-Dividend Paying Stocks	9.0%	29.4%
Long-Term Corporate Bonds	6.1%	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%

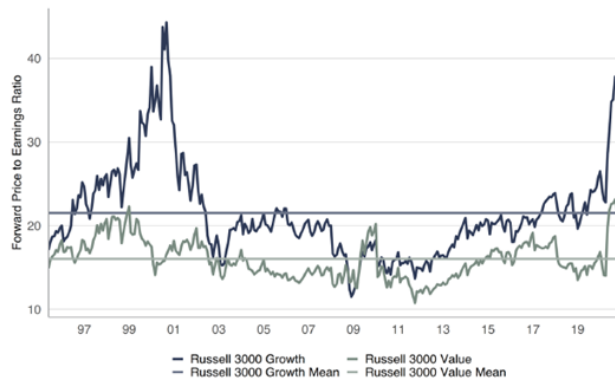
From 06.30.27 through 10.31.20. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

...and the extraordinary valuation advantage that presently exists.



Value and Growth P/E Ratio over Time

From 05.31.1995 through 12.31.2020, Russell 3000 Value and Russell 3000 Growth index price to estimated 12-month (forward) earnings per share ratio. SOURCE: Kovitz using data from Bloomberg Finance L.P.



Value and Growth P/B Ratio over Time

From 05.31.1995 through 12.31.2020, Russell 3000 Value and Russell 3000 Growth index price to book value ratio. SOURCE: Kovitz using data from Bloomberg Finance L.P.



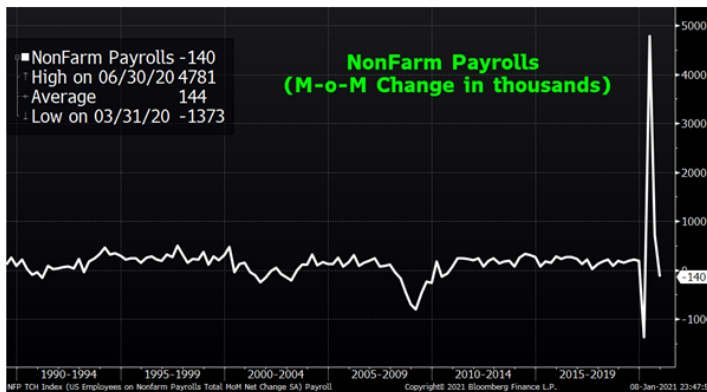
While the major market averages have surged to all-time highs, the rising tide has not lifted all boats equally. Indeed, Growth stocks, on average, trade well above their historic norms in terms of price-to-earnings and price-to-book-value ratios, but Value stocks are trading far closer to their long-term means...and profits for many undervalued stocks were hit (we think temporarily) far harder in 2020 due to the pandemic.

To be sure, the Democratic sweep of the Georgia elections arguably adds to the appeal of Value stocks,...



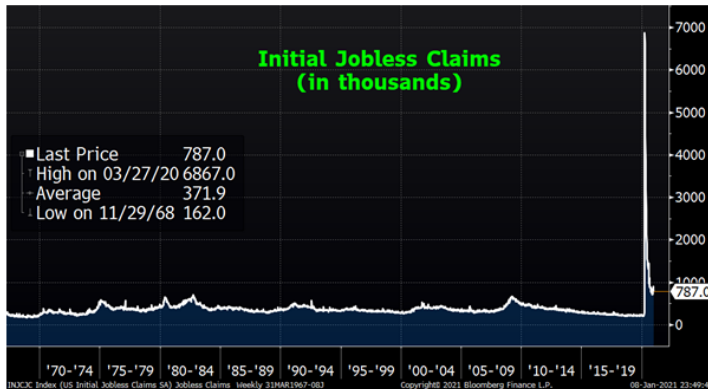
Presidential Performance					
Presidential Party	Congress Party	Fama-French Value Stocks	Fama-French Growth Stocks	Large Company Stocks	Small Company Stocks
Democratic	Democratic	20.6%	16.5%	12.9%	24.0%
Democratic	Republican	15.6%	9.9%	15.0%	10.4%
Democratic	Split	14.5%	14.9%	15.6%	14.3%
Republican	Democratic	10.7%	6.7%	9.5%	6.4%
Republican	Republican	-2.4%	-4.2%	-2.0%	-4.9%
Republican	Split	10.7%	1.9%	5.8%	5.4%
Democratic President		19.0%	14.9%	13.5%	20.3%
Republican President		6.1%	2.0%	4.8%	2.3%

...given the likelihood for additional near-term government stimulus to help offset a jobs market that contracted in December,...



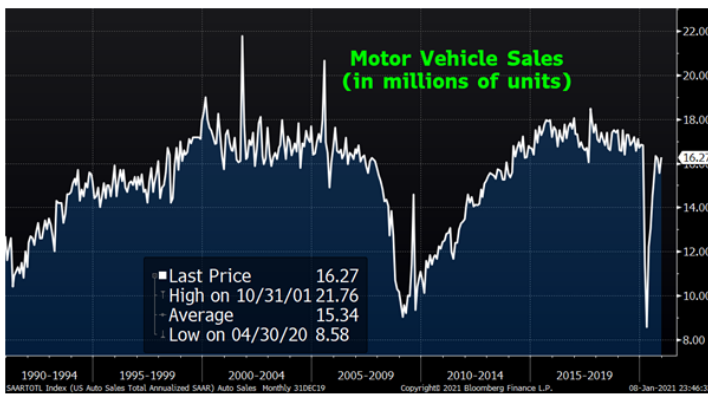
Economists were looking for a gain of 50,000 payrolls, so the decrease of 140,000 in December (well below the historical average of 144,000) lagged expectations, with a nearly 500,000 drop in leisure and hospitality jobs the primary culprit. There are still millions out of work but given that a lot of the recent layoffs were for lower-paying jobs, average hourly earnings comparisons remained high, jumping 5.1% on a year-over-year basis.

...and that has seen over 73 million filings for jobless benefits since the start of the pandemic.



While there is still some noise in the calculations, the jobless rate for December held steady at 6.7%, maintaining its improvement from April's record 14.7% level. Meanwhile, first-time filings for unemployment benefits in the latest week declined to 787,000, better than projected, and continuing jobless claims dropped to 5.07 million, even as the total filings for the last 42 COVID-19-impacted weeks rose to more than 73 million.

No doubt, many will assert that additional largesse from Washington is not necessary, given how well the economy has been holding up,...

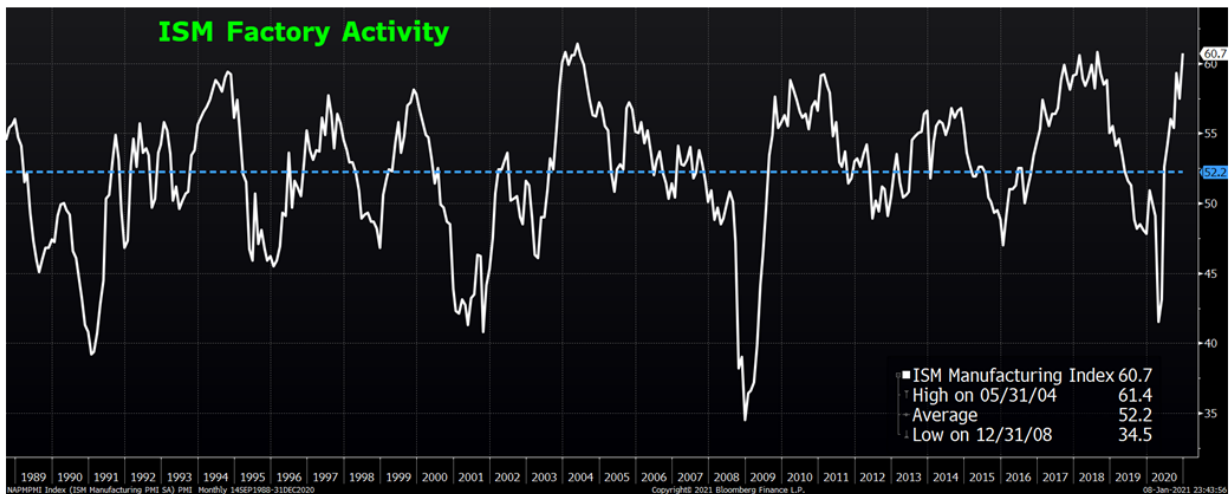


Continuing the bounce in the manufacturing sector after coronavirus-related shutdowns, factory orders for November rose for a seventh straight month, climbing by a stronger-than-expected 1.0%. Meanwhile, sales of cars and trucks jumped in December, with the seasonally adjusted annualized rate for light vehicles sold estimated at 16.27 million units, according to Wards Automotive Group.

...and with relatively robust forward-looking readings on the health of the manufacturing,...



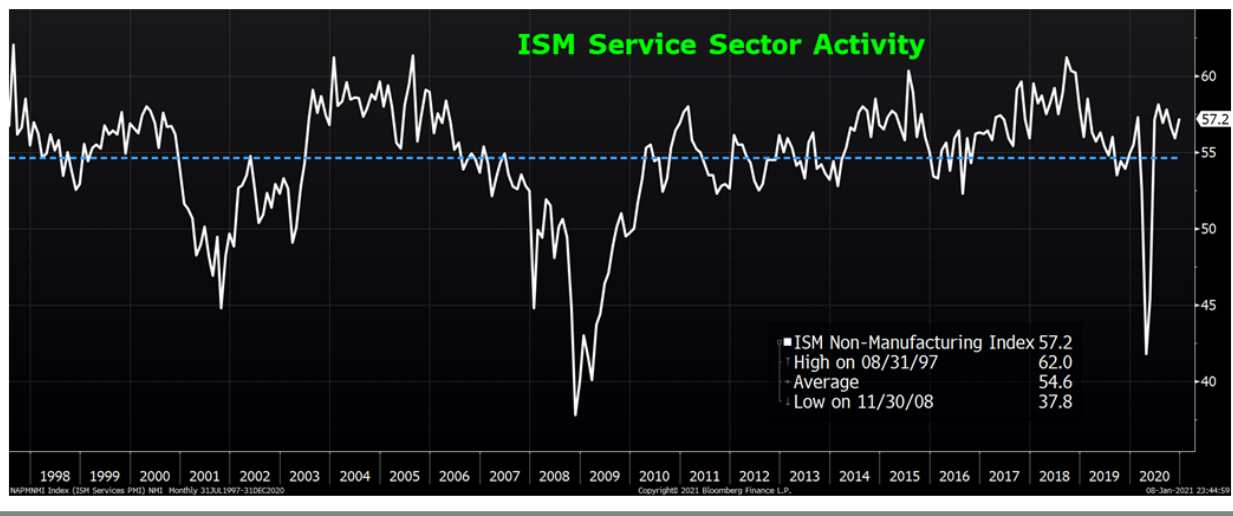
The latest data point on the health of the manufacturing sector soared to a much-better-than-expected 60.7 in December, the highest level in two and a half years and far above average for the 30-year history of the gauge, with the Institute for Supply Management stating, “The past relationship between the PMI and the overall economy... corresponds to a 5.2% increase in real gross domestic product (GDP) on an annualized basis.”



...and services sectors.



The latest read on the health of the service sector jumped to a stronger-than-expected 57.2 in December, up from 55.9 in November. The figure was well above average and suggests a growing non-manufacturing economy, with the Institute for Supply Management stating, “The past relationship between the Services PMI and the overall economy...corresponds to a 2.9% increase in real gross domestic product (GDP) on an annualized basis.”



Not surprisingly, the likelihood of additional government debt coming to market has led to a surge in interest rates, with the yield on the benchmark 10-Year U.S. Treasury jumping from 0.91% to 1.12% last week,...



While the trend in the 10-Year U.S. Treasury yield has been down for most of the past four decades, rates have more than doubled over the last six month or so, even as a 1.12% yield is still extraordinarily low.



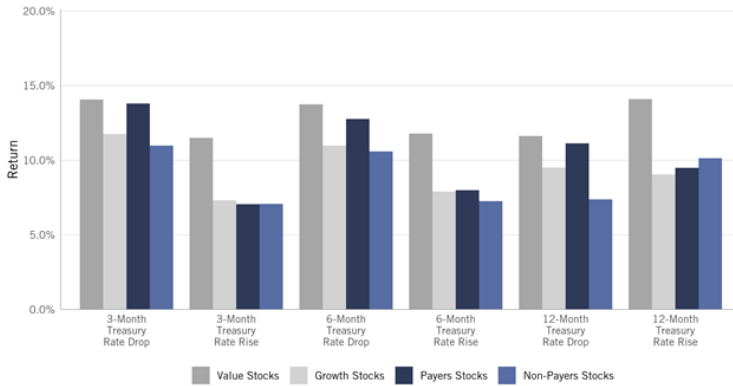
...continuing the sizable move higher over the last six months or so that has led to red ink for some of those hiding out in the perceived safety of fixed income.



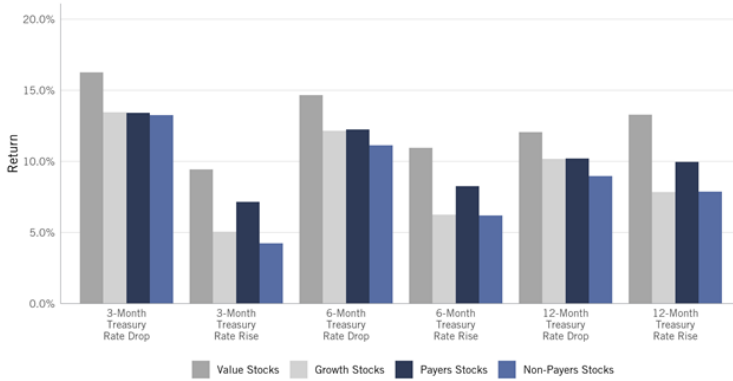
No doubt, folks have in recent years made plenty of money on the iShares 20+ Year U.S. Treasury ETF (TLT), but fixed income investors over the last six months have suffered double-digit percentage losses.



The spike in interest rates has also brought out the inevitable warnings from equity market naysayers that stock prices must soon fall, even as the overwhelming weight of the historical evidence suggests that rising rates, on average, are another arrow in Value's quiver,...



From 06.30.27 through 09.30.20. Concurrent annualized 12-month returns. SOURCE: Kowitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French



From 06.30.27 through 09.30.20. Subsequent annualized 12-month returns. SOURCE: Kowitz using data from Bloomberg Finance L.P. and Professors Eugene F. Fama and Kenneth R. French

Many think rising interest rates will prove to be a big headwind for equities, but nine decades of returns data show that stocks in general have performed admirably on average, both concurrent with and subsequent to increases (as well as decreases) in the yield on the 10-Year U.S. Treasury over 3-, 6-, and 12-month time spans, with Value Stocks leading the charge no matter the direction.

...and, not surprisingly, are a major headwind for bonds,...



Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.6%	11.1%	10.2%	13.8%	1.1%	-0.8%	2.2%	3.6%
Geometric Average	11.5%	8.1%	8.1%	8.7%	1.0%	-0.9%	2.1%	3.5%
Median	16.3%	12.7%	14.1%	11.2%	1.5%	0.0%	1.8%	3.3%
Max	116.2%	84.0%	66.0%	81.8%	14.2%	9.1%	9.6%	13.8%
Min	-58.2%	-50.2%	-52.2%	-58.8%	-8.1%	-14.7%	-5.2%	0.0%
Count	46	46	46	46	46	46	46	46

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2019.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	16.0%	11.6%	12.9%	11.7%	11.6%	12.6%	8.2%	2.9%
Geometric Average	13.3%	9.6%	11.4%	7.7%	11.4%	12.4%	8.1%	2.9%
Median	18.3%	14.2%	14.0%	15.4%	10.5%	10.3%	7.9%	2.3%
Max	56.3%	44.2%	44.4%	68.9%	36.8%	34.9%	26.1%	10.1%
Min	-51.5%	-42.3%	-39.9%	-56.3%	2.7%	2.8%	1.4%	0.0%
Count	44	44	44	44	44	44	44	44

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2019.

...where the love affair has been long-playing.



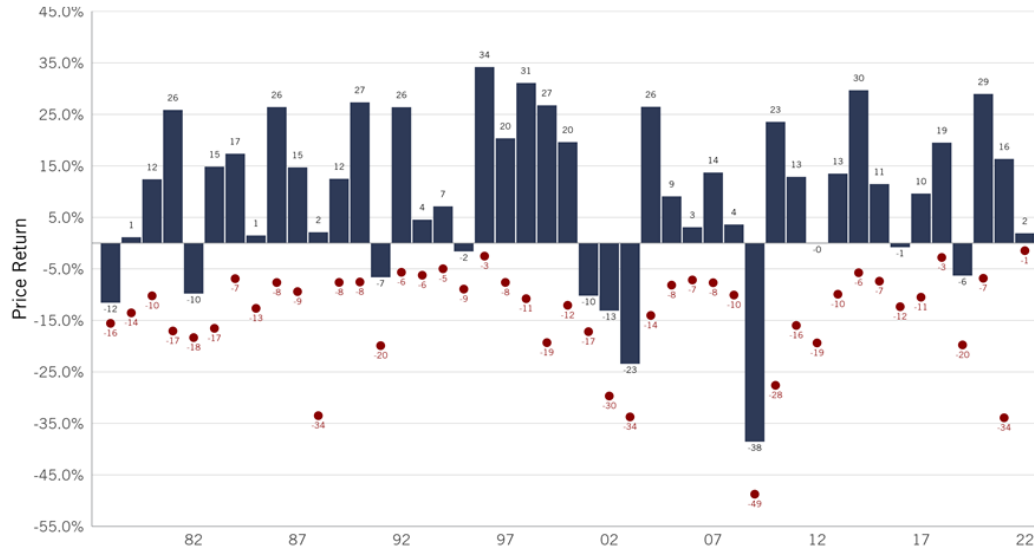
While many stocks reside at all-time highs, investors remain infatuated with fixed income, as data from ICI show that Bonds, aside from a big hiccup in March, continue to garner nearly all the love, despite microscopic yields that have been on the rise over the past six months.

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	-29,908	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	-24,645	43,187
May-15	-17,287	5,010	Nov-16	22,993	-13,289	May-18	10,068	11,749	Nov-19	-11,716	44,480
Jun-15	-7,023	6,324	Dec-16	18,859	-4,142	Jun-18	-21,004	16,995	Dec-19	-27,500	50,733
Jul-15	-14,864	-1,255	Jan-17	5,097	31,037	Jul-18	1,007	22,495	Jan-20	-24,544	73,855
Aug-15	-18,569	-18,122	Feb-17	17,613	33,991	Aug-18	-6,660	17,219	Feb-20	-28,220	25,064
Sep-15	-4,725	-10,849	Mar-17	9,411	36,562	Sep-18	886	18,526	Mar-20	-7,485	-273,714
Oct-15	-807	15,397	Apr-17	-8,266	22,064	Oct-18	-9,657	-27,700	Apr-20	2,664	14,672
Nov-15	654	-5,573	May-17	-10,725	33,070	Nov-18	2,783	-7,459	May-20	-20,929	73,166
Dec-15	476	-25,043	Jun-17	-7,944	29,372	Dec-18	-28,953	-49,512	Jun-20	-24,822	100,075
Jan-16	-27,222	7,686	Jul-17	-12,518	29,139	Jan-19	-21,195	29,308	Jul-20	-46,524	98,490
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	50,996
Apr-16	-12,610	22,114	Oct-17	3,166	36,110	Apr-19	-5,307	40,565	Oct-20	-52,484	63,895
May-16	-14,252	16,925	Nov-17	-4,417	19,788	May-19	-24,652	21,332	Nov-20	41,042	58,856
Jun-16	-15,530	16,623	Dec-17	-9,054	19,491	Jun-19	-11,997	39,771	Dec-20	-2,787	53,199
									Totals:	-756,880	1,539,725

With the understanding that stock prices move in both directions and that we always must be braced for some sort of pullback, especially after the incredible rally off of the March 2020 lows,...



While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 44 years, including a 34% one (on a closing basis) in 2020.



From 12.31.76 through 01.08.21. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

...we remain optimistic about the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks.



CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	19.5	15.3	1.1	2.3	2.3
ValuePlus	22.1	16.5	1.4	2.3	2.0
Dividend Income	18.5	15.0	1.0	2.3	2.7
Focused Dividend Income	20.1	15.9	1.2	2.6	2.5
Focused ValuePlus	20.8	16.5	1.6	2.5	2.1
Small-Mid Dividend Value	18.0	14.8	0.7	1.6	2.3
Russell 3000	34.6	24.7	2.7	4.0	1.4
Russell 3000 Growth	47.5	33.7	4.8	11.8	0.8
Russell 3000 Value	26.8	19.2	1.8	2.4	2.2
Russell 1000	32.1	24.1	2.9	4.2	1.5
Russell 1000 Growth	42.7	32.2	5.1	12.5	0.8
Russell 1000 Value	25.4	19.0	2.0	2.5	2.2
S&P 500 Index	30.5	23.3	2.9	4.3	1.5
S&P 500 Growth Index	38.8	30.0	5.7	10.4	0.8
S&P 500 Value Index	24.6	18.6	1.8	2.6	2.4
S&P 500 Pure Value Index	15.4	11.7	0.7	1.1	2.9

As of 01.09.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

This does not mean that we are ignoring the political, health and other risks that are front and center these days, but we are comforted by the fact that stocks in the fullness of time have overcome all crises that our country has faced.



Event	Reaction Dates		S&P		Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
			Start Value	End Value					
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	43963%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	25398%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	22816%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	8876%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8291%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9712%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7050%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5394%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4000%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4970%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4050%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5365%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3535%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3794%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3101%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2262%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1463%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1601%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1110%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	916%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	829%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	763%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	737%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	657%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	336%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	299%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	211%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	185%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	296%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	317%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	250%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	219%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	465%
Price Changes Only - Does Not Include Dividends			Averages:		-7%	18%	39%	66%	5249%

As of 1.8.21. Source: Kovitz Investment Group using Bloomberg and Ned Davis Research Events & Reaction Dates

Time will tell how the COVID-19 Pandemic, the Great Lockdown and the 2020 U.S. Election Season are remembered in terms of equity market disruption and ultimate recovery, but history is filled with many 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.

Stock Updates

With the jump in interest rates bolstering stocks in the Financial sector and the Georgia elections also providing a greater likelihood of near-term infrastructure spending legislation, which propelled stocks in the Industrial sector higher, we have made quite a few tweaks to our Target Prices, many of which are reflected in the table below showing the winners and losers from week one of 2021.



The year is very young, but some of 2020's cellar dwellers are topping the performance leaderboard thus far in 2021, while the reverse is also true, with some of last year's big winners in the red last week.

Market of Stocks: 2021 Week One																	
TPS Winners								TPS Losers									
Sector	Symbol	Company	01.08.21 Price	Target Price	YTD 2021 TR	2020 TR	52-Week High	52-Week Low	Sector	Symbol	Company	01.08.21 Price	Target Price	YTD 2021 TR	2020 TR	52-Week High	52-Week Low
Materials	ALB	Albemarle	\$184.10	\$192.49	24.8%	105.6%	\$187.25	\$48.89	Real Estate	ARE	Alexandria Real Estate	\$165.91	\$223.56	-6.9%	13.3%	\$179.79	\$109.22
Energy	EOG	EOG Resources	\$58.87	\$74.16	18.0%	-38.6%	\$88.09	\$27.00	Transportation	FDX	FedEx	\$244.96	\$323.99	-5.6%	74.3%	\$305.66	\$88.69
Materials	MOS	Mosaic Co	\$26.81	\$28.17	16.5%	7.6%	\$27.90	\$6.50	Capital Goods	LMT	Lockheed Martin	\$336.10	\$498.03	-5.3%	-6.4%	\$442.53	\$266.11
Banks	FITB	Fifth Third Bancorp	\$31.18	\$37.98	13.1%	-5.4%	\$32.12	\$11.10	Technology Hardware	STX	Seagate Technology PLC	\$59.00	\$70.96	-5.1%	10.1%	\$66.69	\$39.02
Materials	BHP	BHP Group Ltd	\$73.46	\$74.21	12.4%	25.6%	\$73.79	\$29.78	Consumer Durables	MDC	MDC Holdings	\$46.17	\$60.31	-5.0%	32.1%	\$52.50	\$15.75
Diversified Financials	COF	Capital One Financial	\$110.56	\$121.62	11.8%	-2.7%	\$111.78	\$38.00	Capital Goods	MMM	3M	\$166.62	\$202.75	-4.7%	2.8%	\$182.55	\$114.04
Energy	TNP	Tsakos Energy	\$8.94	\$23.10	11.3%	-61.5%	\$23.61	\$7.06	Real Estate	DLR	Digital Realty Trust	\$133.60	\$166.31	-4.2%	20.5%	\$165.49	\$105.00
Banks	KEY	KeyCorp	\$18.24	\$21.92	11.2%	-14.5%	\$20.24	\$7.45	Real Estate	DOC	Physicians Realty Trust	\$16.97	\$21.95	-3.4%	-0.6%	\$20.78	\$11.01
Energy	XOM	Exxon Mobil	\$45.46	\$65.35	10.3%	-36.2%	\$69.96	\$30.11	Utilities	PNW	Pinnacle West Capital	\$77.77	\$105.98	-2.7%	-7.7%	\$105.51	\$60.05
Consumer Durables	TPR	Tapestry	\$34.23	\$36.82	10.1%	17.0%	\$35.36	\$10.18	Consumer Services	RCL	Royal Caribbean	\$72.97	\$91.78	-2.3%	-43.4%	\$135.32	\$19.25
Semiconductors	COHU	Cohu Inc	\$42.00	\$45.65	10.0%	67.6%	\$43.43	\$8.89	Transportation	ALK	Alaska Air Group	\$50.98	\$65.12	-2.0%	-22.8%	\$67.48	\$20.02
Diversified Financials	GS	Goldman Sachs Group	\$290.08	\$316.58	10.0%	17.5%	\$295.89	\$130.85	Energy	HFC	HollyFrontier	\$25.39	\$47.20	-1.8%	-46.5%	\$48.95	\$16.81
Banks	CMA	Comerica	\$61.38	\$84.48	9.9%	-16.8%	\$69.86	\$24.28	Software & Services	ORCL	Oracle	\$63.38	\$72.78	-1.6%	24.2%	\$66.20	\$39.71
Diversified Financials	MS	Morgan Stanley	\$75.25	\$83.88	9.8%	38.1%	\$76.51	\$27.20	Media & Entertainment	DIS	Walt Disney	\$178.69	\$193.67	-1.4%	25.3%	\$183.40	\$79.07
Retailing	JWN	Nordstrom	\$34.24	\$37.25	9.7%	-22.7%	\$42.36	\$11.72	Software & Services	MSFT	Microsoft	\$219.62	\$242.85	-1.3%	42.5%	\$232.86	\$132.52
Retailing	TGT	Target	\$193.60	\$197.02	9.7%	40.5%	\$193.88	\$90.17	Technology Hardware	NTAP	NetApp	\$64.97	\$80.01	-1.2%	10.9%	\$67.63	\$34.66
Health Care Equip/Srvcs	CVS	CVS Health	\$74.86	\$111.59	9.6%	-5.1%	\$76.44	\$52.04	Media & Entertainment	CMCSA	Comcast	\$51.54	\$56.81	-1.2%	19.2%	\$52.49	\$31.71
Capital Goods	TKR	Timken Co	\$84.38	\$87.79	9.1%	40.4%	\$85.65	\$22.26	Food, Bev & Tobacco	TSN	Tyson Foods	\$64.03	\$92.91	-0.6%	-27.3%	\$94.24	\$42.57
Transportation	NSC	Norfolk Southern	\$254.04	\$258.87	6.9%	24.7%	\$257.70	\$112.62	Telecom Services	VZ	Verizon Communications	\$57.80	\$71.88	-0.6%	-0.1%	\$61.95	\$48.84
Capital Goods	CAT	Caterpillar	\$194.26	\$204.03	6.7%	26.9%	\$197.37	\$87.50	Consumer Durables	WHR	Whirlpool	\$179.54	\$243.00	-0.5%	26.5%	\$207.30	\$64.00
Materials	BASFY	BASF SE	\$21.00	\$23.11	6.7%	12.1%	\$21.08	\$10.29	Technology Hardware	AAPL	Apple	\$132.05	\$140.64	-0.5%	82.3%	\$138.79	\$53.15
Semiconductors	LRCX	Lam Research	\$501.63	\$526.25	6.2%	64.0%	\$522.25	\$181.38	Transportation	DAL	Delta Air Lines	\$40.02	\$50.93	-0.5%	-30.8%	\$62.48	\$17.51
Banks	PNC	PNC Financial Services	\$158.19	\$165.88	6.2%	-2.7%	\$162.74	\$79.41	Food & Staples Retailing	KR	Kroger Co	\$31.63	\$40.92	-0.4%	11.9%	\$37.22	\$26.72
Capital Goods	ETN	Eaton Corp PLC	\$126.88	\$132.33	5.6%	31.1%	\$130.00	\$56.42	Consumer Durables	LEG	Leggett & Platt	\$44.13	\$53.06	-0.4%	-8.9%	\$51.76	\$22.03
Diversified Financials	BLK	BlackRock	\$756.45	\$766.98	4.8%	47.2%	\$759.37	\$323.98	Pharma, Biotech	SNY	Sanofi	\$48.45	\$62.28	-0.3%	0.3%	\$55.00	\$37.62

As of 1.8.21

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://theprudentpeculator.com/dashboard/>. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*, and we note that some of the 2021 winners could be sources of capital as new ideas present themselves.

Jason Clark, Chris Quigley and Zack Tart take a look at four of our companies that had news out last week of sufficient interest to merit a Target Price review.

Shares of technology-focused health concern **Change Healthcare** (CHNG – \$24.14) surged 29% last week after Optum, a part of UnitedHealth Group, announced plans to acquire the company. The press release stated, “Change Healthcare will join with OptumInsight to provide software and data analytics, technology-enabled services and research, advisory and revenue cycle management offerings to help make health care work better for everyone.”

“Change Healthcare has made significant progress executing its strategic objectives, including advancing innovation, accelerating growth and improving the effectiveness of the U.S. health system,” said Howard Lance, Chairman of the Board of Directors of Change Healthcare. “We are delighted to have in Optum a partner that shares a common vision of creating a better future

for health care for the people and communities we serve and see this combination as in the best interests of all of our stakeholders.”

The purchase agreement will exchange each CHNG share for \$25.75 in cash. The deal is expected to close in the second half of this year and is subject to customary regulatory review. We acquired our Change shares in exchange for some or all of our **McKesson** (MCK – \$183.55) in 2019 and in the relatively short holding period, shares have appreciated 86%. Given the limited upside between the current price and the buyout price, as well as long runway to closing and lack of a dividend, we will consider our CHNG position a source of cash to fund future purchases, though we will hold for the time being as our Target Price is \$26.

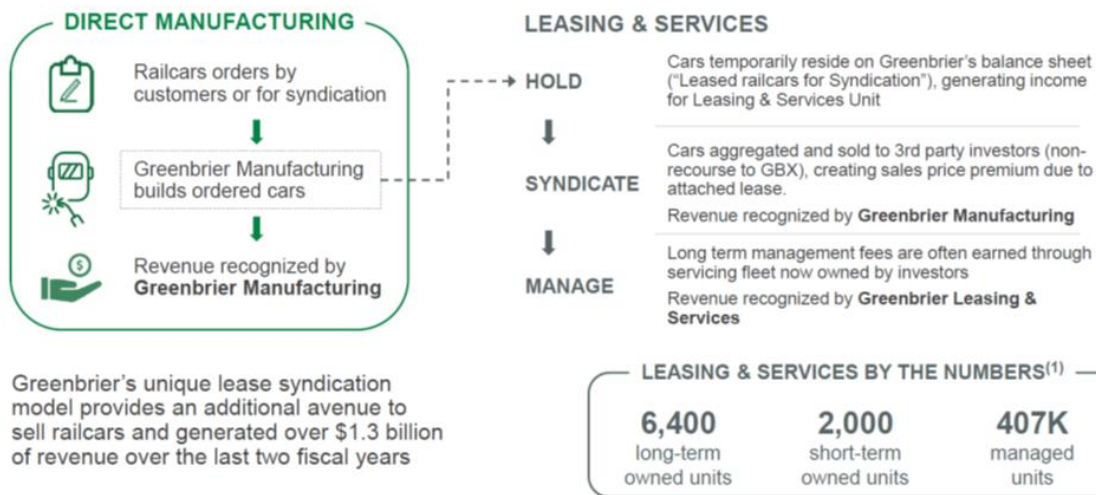
Shares of thinly traded **Greenbrier Companies** (GBX – \$35.56) ended trading roughly where they began last week even as the railcar manufacturer reported a fiscal Q1 loss per share that was worse than analysts expected (-\$0.30 vs. -\$0.08). Lingering effects from the pandemic drove sales lower in the quarter by more than a third compared to fiscal Q4 2020 as the company delivered 45% fewer railcars. Greenbrier continues to prioritize liquidity and expense control, maintaining a cash balance of \$724.5 million (equivalent to roughly a normalized quarter worth of revenue) with an additional \$85 million of borrowing capacity on its credit facility. Roughly in line with last quarter, the company still boasts a backlog made up of 23,900 units valued at \$2.4 billion. Notwithstanding the roller coaster 2020 had been, shares are 29% higher than they were at this point last year.

Despite the quarterly loss, CEO Bill Furman commented, “We continue to generate solid operating cash flow, an important measure of Greenbrier’s health and vitality. This results from earlier actions we executed as our industry entered a downturn in mid-2019, including adjusting capacity and reducing costs prior to and during the onset of the pandemic. The pandemic compelled us to take a series of additional tough steps to protect the enterprise and to ensure Greenbrier maintained the strongest possible financial position. We serve markets with cyclical demand that are also uniquely exposed to broader economic forces. This makes flexibility and adaptability an integral to Greenbrier’s survival. Not only it’s survival, but it’s long-term growth, recovery and well-being.”

Turning to the quarters ahead, he continued, “With rightsizing our capacity nearly complete, Greenbrier’s operating footprint is well suited for the market recovery expected in the second half of calendar 2021. Steps we have taken in the past several years have resulted in a strong industry leadership on 3 continents, and the data we study suggest that when a return to normalcy does arrive that the rail business will react very quickly, and there should be a snapback effect. Overall, we are cautiously optimistic about the U.S. economy and the world during the next 12 months. The recently enacted federal stimulus package, mass vaccine distribution, steady consumer spending and the promise of robust infrastructure package emerging from a new Congress and administration in Washington are all favorable developments.”



Unique Model Provides Maximum Flexibility



⁽¹⁾Data as of 11/30/2020

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Despite the challenging operating environment, we continue to think consolidating acquisitions in North America and expansion abroad have both strengthened the company's competitive position and added beneficial diversification. We acknowledge that GBX has historically been a volatile stock and that is unlikely to dissipate in the near term. But for those able to stay on the ride, Greenbrier has potential to significantly benefit as the economy eventually hits its stride. We point out that the firm has grown book value per share by a multiple of 3 over the past decade, while paying out substantial income to shareholders through dividends since 2014. Shares currently yield 3.0% and our Target Price remains \$43.

Lighting and building management concern **Acuity Brands** (AYI – \$115.99) reported last Thursday that it earned \$2.03 per share in its Q1 2021 that ended November 30. The print bested the \$1.85 expected by analysts as the firm repurchased nearly 5% of its outstanding share count in the quarter, helping to offset a 5.1% year-over-year revenue decline. Shares had rallied as much as 23% since the Pfizer vaccine announcement before retracing nearly 10% in the two days after releasing financial results. The year-over-year sales decline was largely attributed to a 28% decrease in the corporate account sales channel as big box retailers either postponed or cancelled projects. Also, Acuity had the benefit of fresh price increases in the comparable quarter a year ago as a measure to counteract the burden of tariffs.

CEO Neil Ashe commented on the quarter, “Our company delivered consistent financial performance in our first quarter amid the challenging market environment associated with the pandemic that continues to negatively impact our end markets. We achieved gross profit margins of 42%, in line with our gross profit margins in the fourth quarter, resulting from our ongoing actions to drive productivity and reduce product input costs. We generated free cash flow of \$113 million and deployed \$255 million of cash to repurchase shares under our share repurchase program.”

Looking ahead, he added, “While we still see uncertainty in the end markets we serve, we are cautiously optimistic about improvement during calendar year 2021. We are using the breadth of our product portfolio and the strength of our go-to-market teams to deliver solid top line performance. At the same time, we are managing our costs well while continuing to invest in our business for the future so that we will become a larger, more dynamic company.”

No doubt, the pandemic has affected demand over the past year and implanted uncertainty around the future of certain non-residential real estate. But, we view these as opportunities for Acuity as lighting represents a significant proportion of energy consumed by commercial real estate and as customers pursue additional ways to automate their properties. Further, management reminded on the earnings conference call, “We expanded our capabilities to provide a broad portfolio of leading germicidal UV products. In addition to our relationships with Ushio, PURO and Violet Defense. We had an agreement to purchase and resell the UV Angel Clean Air disinfection system, as well as pursue joint development of UV light disinfection products. We now have the ability to serve multiple end use alternatives and are in the market, selling a variety of GUV products. We are uniquely positioned to support customers with our luminaire, controls and building management portfolio.”

We also note that recent borrowings to refinance an outstanding term loan strengthens an already solid balance sheet which should support continued share repurchases (5.1 million shares remain on the authorization). With a NTM P/E ratio of 14.6, shares trade on the lower end of the 5-year range and yield a modest 0.4%. Our Target Price now stands at \$181

Memory maker **Micron Technology** (MU – \$77.42) posted earnings per share of \$0.78, versus the \$0.67 estimate, in fiscal Q1 2021. MU had total revenue of \$5.77 billion, versus the \$5.63 billion estimate. Shares dropped 2% on the news, although they have gained 125% since last year’s low on March 16 as memory makers have benefitted from strong demand and growth expectations remain intact for the upcoming year.

CEO Sanjay Mehrotra said on the earnings call, “Micron continues to make solid progress on our key goals: first, to deliver industry-leading technology and improve our cost structure; second, to bring differentiated products to market and improve our product mix; and third, to grow our share of industry profits while maintaining stable bit share. From fiscal year ’16 to fiscal year ’20, we substantially improved our EBITDA margin for our combined DRAM and NAND business, while the rest of the industry in aggregate was roughly flat. And over the last few years, we have accelerated our technology road map in both DRAM and NAND. As a result, for the first time in our history, Micron has technology leadership in both DRAM and NAND simultaneously.”

Mr. Mehrotra continued, “Turning to end markets. In data center, cloud and AI will drive long-term growth, with memory and storage becoming an increasing portion of server [parts] cost...In data center SSDs, we continue to make progress on our NVMe portfolio and completed several customer qualifications in F Q1...Micron is well positioned to win in the 5G era with our industry-leading product portfolio. We had several key achievements in our mobile business in F Q1... In PC, the continued remote work and learning trend drove strong notebook and Chromebook demand in the quarter despite pockets of nonmemory component shortages in the supply chain...In graphics, we achieved strong GDDR6 and 6X bit shipment growth driven by new game console and PC graphics product launches. Micron has a strong position in this high-growth market with a broad product portfolio and deep customer partnerships.”

“As we look ahead, we are excited about the growth and health of our diverse end markets, which continue to benefit from powerful secular technology trends, including AI, cloud, 5G and the intelligent edge. These trends are already enabling the data economy and increasing the importance of DRAM and NAND. Memory and storage industry revenues have grown faster than the broader semiconductor industry from approximately 10% of semiconductor industry revenues in the early 2000s, to now approaching 30%. We expect that our TAM growth will continue to outpace the rest of the semiconductor industry over the next decade,” Mr. Mehrotra concluded.

Management expects DRAM cost reductions in the mid-single-digit percent range in fiscal 2021. NAND cost reductions are expected in the low- to mid-teens percent range. The company expects revenue for fiscal Q2 to come in between \$5.6 billion and \$6.0 billion with adjusted EPS between \$0.68 and \$0.82. Micron finished the quarter with approximately \$1.8 billion in net cash and has total liquidity of \$10.9 billion. While MU has never paid a dividend, the company remains committed to returning cash to shareholders via its share repurchase program. MU did not buy back any shares in fiscal Q1 but expects to return 50% of annual free cash flow to shareholders.

Micron shares stumbled shortly after we initially recommended them, but those that stuck with MU have been rewarded with healthy gains. We believe that Micron can continue its run thanks to growing earnings (more than \$8.00 of EPS projected by 2023 compared to \$2.83 in 2020) and a strong demand environment for solid state products. As always with memory makers, the short term offers plenty of uncertainty and a focus on the longer term remains important. The company has a strong balance sheet and reasonable valuation metrics. Our Target Price for MU has been boosted to \$90.

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