

# the Prudent Speculator

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With *The Prudent Speculator* celebrating its 44th Anniversary last month and the equity markets passing the one-year mark in their fantastic rebound from the COVID-19 Pandemic lows, we are reminded of one of Al Frank's favorite quotations, "Too much of a good thing can be wonderful." No doubt, our founder would have channelled Mae West to describe another terrific month that capped off a great quarter, especially for those of us invested in inexpensively priced stocks.

Indeed, the Russell 3000 Value index (R3KV) returned 5.8% during March, compared to 1.4% for its Growth (R3KG) counterpart. This wasn't quite as strong as the 6.8% monthly advance turned in by the Dow Jones Industrial Average, but the returns race has very much favored Value this year. For the first quarter, the R3KV returned 11.9%, compared to a 1.2% gain for the R3KG, while the gap in performance thus far in 2021 between the S&P 500 Pure Value and Pure Growth indexes has been vast at 21.0% to 0.8%.

Certainly, the renaissance in Value didn't just begin. The outperformance commenced last year shortly after Independence Day, which was only a few weeks before the yield on the 10-Year U.S. Treasury hit bottom near 0.5%. This makes sense, given the historical returns and rising rate precedents that we have oft cited, not to mention the fact that minimal or non-existent near-term earnings prospects often associated with Growth stocks should be less valuable when a higher discount rate is applied.

Of course, Halloween really marked the start of the latest resurgence for the kind of stocks that we have long favored as it was just a week or so thereafter that drug-maker **Pfizer** and partner BioNTech announced that their vaccine against COVID-19 was more than 90% effective. With investors starting to believe that the cavalry was coming on the health front, the outlook for corporate profits growth picked up and confidence in an economic revival began to take hold, two factors that decades of long-term data also show favor Value stocks. Toss in another two rounds of significant stimulus from Uncle Sam and GDP growth estimates have accelerated to the upside.

In fact, the Federal Reserve last month raised its projection for 2021 real (inflation-adjusted) U.S. growth to 6.5%, yet left its target for the Fed Funds rate at 0% to 0.25% through the end of 2023. Jerome H. Powell explained, "The recovery has progressed more quickly than generally expected and looks to be strengthening. But the recovery is far from complete." The Fed Chair and his colleagues have pledged to remain highly accommodative "until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time." Happily, periods of rising inflation also favor Value stocks.

Despite what would seem to be more than a few tailwinds for equities in general and undervalued stocks in particular, we never forget that prices move in both directions. We remain braced for downside volatility, especially as some gauges of investor sentiment have become a bit frothy, and we know that many are concerned about the prospects for increases in individual and corporate taxes, both scenarios in which Value historically has shined.

We also won't be surprised if a few overleveraged hedge funds join Archegos Capital Management in the poor house as we think the Warren Buffet quotation is especially apt these days, "Only when the tide goes out do you discover who has been swimming naked." We will have our ups and downs, as we will always believe that time in the market trumps market timing, but we very much like how we are clothed! We think that a forward P/E ratio below 16 and a 2.2% dividend yield for TPS Portfolio are both very attractive, given the likelihood of robust EPS growth for our holdings this year and next and the still-very-low interest-rate climate.

"We will continue to provide the economy the support that it needs for as long as it takes."

— Jerome H. Powell



Editor, Principal, Portfolio Manager  
Kovitz

# Graphic Detail

## The COVID-19 Pandemic & Equities

What a difference a year makes! We know that sell-offs, downturns, pullbacks and corrections 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, but what transpired in March 2020

was stunning. True, the magnitude of the COVID-19-related plunge in equity prices was in line with the average Bear Market decline and the S&P 500 endured massive declines of similar size in 1987, 2001, 2002 and 2008, but none of those mighty drops took place as quickly.

### VOLATILITY IS NOT UNUSUAL

Advancing markets have occurred about as often as declining markets but the average gains have dwarfed the average losses.

Advancing Markets						
Minimum Advance %	Average Gain	Average # Days	Freq. Count	Freq. (Years)	Last Start	Last End
20.0%	112.0%	984	27	3.4	3/23/2020	3/26/2021
17.5%	67.2%	575	39	2.3	3/23/2020	3/26/2021
15.0%	66.9%	559	45	2.0	3/23/2020	3/26/2021
12.5%	44.5%	336	72	1.3	3/23/2020	3/26/2021
10.0%	35.1%	246	98	0.9	3/23/2020	3/26/2021
7.5%	23.7%	148	157	0.6	9/23/2020	3/26/2021
5.0%	14.8%	73	306	0.3	10/30/2020	3/26/2021

Declining Markets						
Minimum Decline %	Average Loss	Average # Days	Freq. Count	Freq. (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 3.26.21. 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

### 2020 BEAR MARKET

In an unprecedented five-week span last year, stocks plunged some 40% as the global economies came to a virtual standstill.

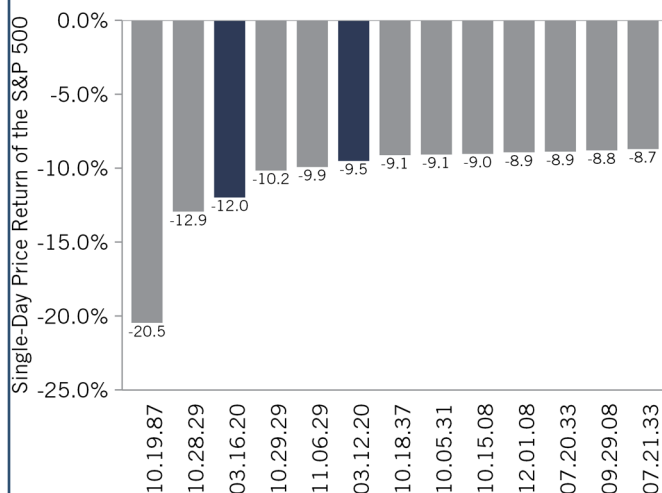
Index	High Date	Low Date	Bear Mkt Drop
<b>Average Stock (End of Day Total Return)</b>			
Russell 3000 Average Stock	02.19.20	03.23.20	-40.5%
Russell 3000 Value Average Stock	01.17.20	03.23.20	-42.7%
S&P 500 Average Stock	02.19.20	03.23.20	-39.2%
NASDAQ Composite Average Stock	02.19.20	03.23.20	-34.0%
<b>Broad-Based Indexes (Intraday Price Change)</b>			
Dow Jones Industrial Average	02.12.20	03.23.20	-38.4%
NASDAQ Composite Index	02.19.20	03.23.20	-32.6%
Russell 1000 Index	02.19.20	03.23.20	-36.2%
Russell 2000 Index	01.17.20	03.18.20	-43.7%
Russell 3000 Index	02.19.20	03.23.20	-36.7%
S&P 500 Index	02.19.20	03.23.20	-35.4%

<b>Value/Growth Indexes (Intraday Price Change)</b>			
Russell 1000 Value Index	02.12.20	03.23.20	-39.6%
Russell 1000 Growth Index	02.19.20	03.23.20	-33.5%
Russell 2000 Value Index	01.17.20	03.23.20	-46.8%
Russell 2000 Growth Index	02.19.20	03.18.20	-42.6%
Russell 3000 Value Index	01.17.20	03.23.20	-40.0%
Russell 3000 Growth Index	02.19.20	03.23.20	-34.0%
S&P 500 Value Index	02.12.20	03.23.20	-38.3%
S&P 500 Growth Index	02.19.20	03.23.20	-33.4%
S&P 500 Pure Value Index	01.17.20	03.23.20	-51.8%

SOURCE: Kovitz Investment Group using data from Bloomberg Finance LP.

### S&P 500 LARGEST DAILY DECLINES

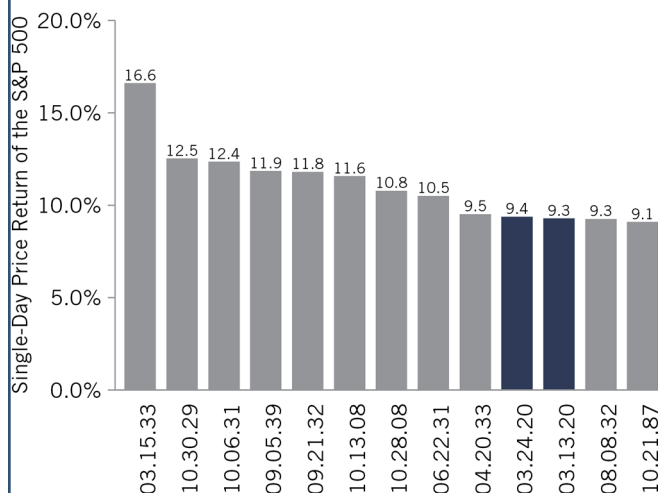
Incredibly, two of the top-13 single-day down moves in history took place during March 2020.



From 12.30.27 through 03.31.21. SOURCE: Kovitz Investment Group using data from Bloomberg Finance LP.

### S&P 500 LARGEST DAILY ADVANCES

As has occurred before during scary Bear Markets, March 2020 saw two of the biggest daily up moves in equity market history.

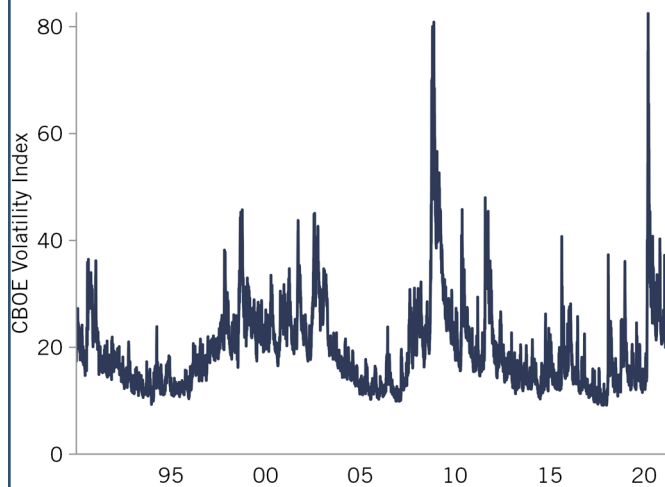


From 12.30.27 through 03.31.21. SOURCE: Kovitz Investment Group using data from Bloomberg Finance LP.

Obviously, COVID-19 was a proverbial black swan for which few investors were prepared, even as the world had previously confronted the Spanish Flu in 1918 and the far-less deadly H1N1 in 2009. But while stock prices endured record volatility, those who kept the faith that equities would prove rewarding in the fullness of time, as has been the case following all other frightening events, did not have to wait long for their confidence to be rewarded.

### VOLATILITY INDEX

The Volatility Index dates back only three decades, but the Financial Crisis in 2008 and March 2020 have the only readings above 80.



From 01.02.90 through 03.31.21. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

### 2020-2021 BULL MARKET

The returns on equities since the Bull Market began have been staggering, more than making up for the Bear Market losses.

Index	Low Date	High Date	Bull Mkt Gain
<b>Average Stock (End of Day Total Return)</b>			
Russell 3000 Average Stock	03.23.20	03.15.21	137.9%
Russell 3000 Value Average Stock	03.23.20	03.15.21	124.8%
S&P 500 Average Stock	03.23.20	03.26.21	99.0%
NASDAQ Composite Average Stock	03.23.20	02.12.21	116.7%
<b>Broad-Based Indexes (Intraday Price Change)</b>			
Dow Jones Industrial Average	03.23.20	03.29.21	78.4%
NASDAQ Composite Index	03.23.20	02.12.21	105.5%
Russell 1000 Index	03.23.20	03.17.21	83.5%
Russell 2000 Index	03.18.20	03.15.21	138.1%
Russell 3000 Index	03.23.20	03.15.21	86.4%
S&P 500 Index	03.23.20	03.26.21	77.6%
<b>Value/Growth Indexes (Intraday Price Change)</b>			
Russell 1000 Value Index	03.23.20	03.26.21	79.4%
Russell 1000 Growth Index	03.23.20	02.12.21	93.8%
Russell 2000 Value Index	03.23.20	03.12.21	137.2%
Russell 2000 Growth Index	03.18.20	02.09.21	151.5%
Russell 3000 Value Index	03.23.20	03.15.21	82.7%
Russell 3000 Growth Index	03.23.20	02.12.21	96.5%
S&P 500 Value Index	03.23.20	03.26.21	72.7%
S&P 500 Growth Index	03.23.20	02.12.21	86.7%
S&P 500 Pure Value Index	03.23.20	03.15.21	125.0%

SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

### 2020 S&P 500 ATTRIBUTION

With the mega-cap tech stocks dominating the index, the average stock in the S&P 500 had a return of "only" 9.5% in 2020.

Ticker	Company Name	Average Weight	Total Return (%)	Contrib to Return (%)	P/E* Ratio
<b>S&amp;P 500 Top Contributors</b>					
AAPL	Apple	5.77	82.31	3.90	27.8
AMZN	Amazon.com	4.18	76.26	2.59	50.8
MSFT	Microsoft	5.48	42.53	2.20	31.1
GOOG	Alphabet	3.29	30.94	0.99	26.0
NVDA	NVIDIA	0.89	122.30	0.76	40.5
FB	Facebook	2.10	33.09	0.71	23.7
PYPL	PayPal Holdings	0.70	116.51	0.61	53.2
NFLX	Netflix	0.73	67.11	0.41	48.4
<b>Top-8 Total</b>		<b>23.14</b>		<b>12.18</b>	
<b>S&amp;P 500 Top Detractors</b>					
C	Citigroup	0.43	-19.64	-0.19	10.3
JPM	JPMorgan Chase	1.24	-5.52	-0.20	14.2
RTX	Raytheon	0.33	-34.56	-0.20	20.8
CVX	Chevron	0.63	-25.97	-0.24	22.1
BA	Boeing	0.40	-33.90	-0.29	1431.0
T	AT&T	0.85	-21.38	-0.30	9.6
WFC	Wells Fargo	0.44	-41.66	-0.39	14.9
XOM	Exxon Mobil	0.72	-36.21	-0.44	19.2
<b>Top-8 Total</b>		<b>5.04</b>		<b>-2.23</b>	

P/E Ratio is the Bloomberg estimated forward price-to-earnings ratio. Using the iShares S&P 500 ETF (SPY) as a proxy for the S&P 500 index. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

### Q1 2021 S&P 500 ATTRIBUTION

The tables have turned in favor of Value this year and the average S&P 500 stock returned 11.1% in Q1 versus 6.2% for the index.

Ticker	Company Name	Average Weight	Total Return (%)	Contrib to Return (%)	P/E* Ratio
<b>S&amp;P 500 Top Contributors</b>					
GOOG	Alphabet	3.56	17.88	0.59	26.0
MSFT	Microsoft	5.36	6.25	0.34	31.1
JPM	JPMorgan Chase	1.34	20.66	0.25	14.2
XOM	Exxon Mobil	0.67	37.77	0.21	19.2
BAC	Bank of America	0.80	28.28	0.21	15.4
INTC	Intel	0.74	29.22	0.19	13.9
FB	Facebook	1.98	7.82	0.16	23.7
BRK/B	Berkshire Hathaway	1.44	10.18	0.15	23.5
<b>Top-8 Total</b>		<b>15.88</b>		<b>2.09</b>	
<b>S&amp;P 500 Top Detractors</b>					
COST	Costco Wholesale	0.47	-6.27	-0.03	33.9
V	Visa	1.09	-3.05	-0.04	36.6
ADBE	Adobe	0.69	-4.95	-0.04	39.6
AMD	Advanced Micro Dev	0.32	-14.40	-0.05	40.7
QCOM	Qualcomm	0.50	-12.53	-0.07	17.9
TSLA	Tesla	1.76	-5.35	-0.08	156.8
AMZN	Amazon.com	4.15	-5.00	-0.22	50.8
AAPL	Apple	6.29	-7.81	-0.53	27.8
<b>Top-8 Total</b>		<b>15.28</b>		<b>-1.06</b>	

P/E Ratio is the Bloomberg estimated forward price-to-earnings ratio. Using the iShares S&P 500 ETF (SPY) as a proxy for the S&P 500 index. SOURCE: Kovitz Investment Group using data from Bloomberg Finance L.P.

# All Recommended Stocks

In this space, we list all of the stocks we own across our multi-cap-value managed account strategies and in our four newsletter portfolios. See the last page for pertinent information on our flagship TPS strategy, which has been in existence since the launch of *The Prudent Speculator* in March 1977.

Readers are likely aware that TPS has long been monitored by *The Hulbert Financial Digest* (“Hulbert”). As industry watchdog Mark Hulbert states, “Hulbert was founded in 1980 with the goal of tracking investment advisory newsletters. Ever since it has been the premiere source of objective and independent performance ratings for the industry.” For info on the newsletters tracked by Hulbert, visit: <http://hulbertratings.com/since-inception/>

Keeping in mind that all stocks are rated as “Buys” until such time as we issue an official Sales Alert, we believe that all of the companies in the tables on these pages trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

While we always like to state that we like all of our children equally, meaning that we would be fine in purchasing any of the 100+ stocks, we remind subscribers that we very much advocate broad portfolio diversification with TPS Portfolio holding more than eighty of these companies. Of course, we respect that some folks may prefer a more concentrated portfolio, however our minimum comfort level in terms of number of overall holdings in a broadly diversified portfolio is at least thirty!

TPS rankings and performance are derived from hypothetical transactions “entered” by Hulbert based on recommendations provided within TPS, and according to Hulbert’s own procedures, irrespective of specific prices shown within TPS, where applicable. Such performance does not reflect the actual experience of any TPS subscriber. Hulbert applies a hypothetical commission to all “transactions” based on an average rate that is charged by the largest discount brokers in the U.S., and which rate is solely determined by Hulbert. Hulbert’s performance calculations do not incorporate the effects of taxes, fees, or other expenses. TPS pays an annual fee to be monitored and ranked by Hulbert. With respect to “since inception” performance, Hulbert has compared TPS to 17 other newsletters across 70 strategies (as of the date of this publication). Past performance is not an indication of future results. For additional information about Hulbert’s methodology, visit: <http://hulbertratings.com/methodology/>. ■

Industry Group	Ticker <sup>1</sup>	Company	Price	Target Price	Price Multiples				EV/	FCF	Debt/	Div	Mkt
					EPS	Sales	TBV <sup>2</sup>	ROCE <sup>3</sup>	EBITDA <sup>4</sup>	Yield <sup>5</sup>	TE <sup>6</sup>	Yield	Cap
Technology Hardware	AAPL	Apple	122.15	152.20	33.0	7.0	31.0	82.1	22.8	3.8	150%	0.7%	2,050,666
Health Care Equip/Srvcs	ABT	Abbott Labs	119.84	133.19	32.8	6.1	nmf	14.1	25.9	2.7	nmf	1.5%	212,300
Food, Bev & Tobacco	ADM	Archer-Daniels	57.00	63.31	15.9	0.5	2.2	9.0	14.2	-10.0	60%	2.6%	31,835
Materials	ALB	Albemarle	146.11	193.62	35.5	5.5	7.6	9.2	26.8	-0.3	129%	1.1%	17,054
Insurance	ALIZY	Allianz SE	25.58	33.38	12.8	nmf	1.4	8.8	nmf	nmf	nmf	2.8%	105,465
Transportation	ALK	Alaska Air Group	69.21	78.45	nmf	2.4	9.0	-35.6	-7.7	nmf	380%	0.0%	8,609
Insurance	ALL	Allstate	114.90	154.93	7.8	nmf	1.4	21.1	nmf	nmf	nmf	2.8%	34,800
Pharma/Biotech/Life Sci	AMGN	Amgen	248.81	291.08	15.0	5.7	nmf	76.1	13.1	6.8	nmf	2.8%	143,704
Health Care Equip/Srvcs	ANTM	Anthem	358.95	473.39	16.0	0.7	41.8	14.1	9.0	10.7	960%	1.3%	87,909
Materials	APD	Air Products & Chemicals	281.34	342.30	33.7	6.9	5.5	15.6	18.4	1.0	63%	2.1%	62,254
Real Estate	ARE	Alexandria Real Estate	164.30	225.96	22.5	nmf	1.9	7.4	nmf	nmf	nmf	2.7%	22,459
Semis & Cap Equipment	AVGO	Broadcom	463.66	514.66	19.7	7.7	nmf	17.9	18.9	6.6	nmf	3.1%	189,313
Insurance	AXAHY	AXA SA	27.06	38.39	13.9	nmf	nmf	4.9	nmf	nmf	nmf	2.4%	65,446
Insurance	AXS	Axis Capital	49.57	66.62	nmf	nmf	0.9	-3.2	nmf	nmf	nmf	3.4%	4,201
Capital Goods	AYI	Acuity Brands	165.00	198.81	19.2	1.8	23.5	12.8	11.9	6.9	221%	0.3%	5,891
Banks	BAC	Bank of America	38.69	44.12	20.7	nmf	1.9	6.7	nmf	nmf	nmf	1.9%	333,788
Materials	BASFY	BASF SE	20.71	25.05	33.8	1.1	3.2	-2.8	12.6	3.5	82%	3.2%	76,087

As of 03.31.21. nmf=Not meaningful. <sup>1</sup>=First-time recommendation. <sup>2</sup>Tangible book value. <sup>3</sup>Return on Common Equity. <sup>4</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>5</sup>Free cash flow yield. <sup>6</sup>Tangible equity. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Industry Group	Ticker <sup>1</sup>	Company	Price	Target Price	EPS	Sales	TVB <sup>2</sup>	ROCE <sup>3</sup>	EBITDA <sup>4</sup>	Yield <sup>5</sup>	Debt/TE <sup>6</sup>	Div Yield	Mkt Cap
Technology Hardware	BHE	Benchmark Electronics	30.92	34.81	32.5	0.5	1.5	1.4	10.7	7.6	28%	2.1%	1,123
Insurance	BHF	Brighthouse Fin'l	44.25	75.79	nmf	nmf	0.2	-6.8	nmf	nmf	nmf	0.0%	3,867
Retailing	BIG	Big Lots	68.30	83.19	9.3	0.4	1.9	59.3	3.6	9.9	118%	1.8%	2,394
Pharma/Biotech/Life Sci	BIIB	Biogen	279.75	327.82	8.5	3.2	23.0	33.3	9.0	8.3	422%	0.0%	42,616
Diversified Financials	BK	Bank of New York	47.29	59.38	11.8	nmf	2.0	8.6	nmf	nmf	nmf	2.6%	41,471
Diversified Financials	BLK	Blackrock	753.96	828.43	22.3	nmf	46.9	14.3	nmf	nmf	nmf	2.2%	115,809
Pharma/Biotech/Life Sci	BMJ	Bristol-Myers Squibb	63.13	98.96	9.8	3.3	nmf	-20.2	147.7	9.3	nmf	3.1%	141,028
Banks	C	Citigroup	72.75	100.30	14.5	nmf	1.0	5.6	nmf	nmf	nmf	2.8%	151,807
Health Care Equip/Srvcs	CAH	Cardinal Health	60.75	82.17	10.3	0.1	nmf	93.1	12.4	16.9	nmf	3.2%	17,840
Capital Goods	CAT	Caterpillar	231.87	246.98	38.1	3.0	16.6	20.0	18.2	3.3	347%	1.8%	126,440
Materials	CE	Celanese	149.81	162.68	19.6	3.0	8.4	65.8	19.5	5.5	168%	1.8%	17,105
Health Care Equip/Srvcs	CHNG	Change Healthcare	22.10	27.08	24.3	2.2	nmf	-12.1	21.0	6.0	nmf	0.0%	6,774
Banks	CMA	Comerica	71.74	89.84	21.9	nmf	1.4	6.1	nmf	nmf	nmf	3.8%	10,007
Media & Entertainment	CMCSA	Comcast	54.11	60.99	20.7	2.4	nmf	12.2	11.5	6.3	nmf	1.8%	247,859
Capital Goods	CMI	Cummins	259.11	296.23	21.4	1.9	6.5	23.0	13.5	5.7	68%	2.1%	37,971
Diversified Financials	COF	Capital One Fin'l	127.23	149.58	22.3	nmf	1.4	4.3	nmf	nmf	nmf	1.3%	58,097
Semis & Cap Equipment	COHU	Cohu	41.84	63.69	35.8	3.2	76.6	-2.8	31.7	1.8	1283%	0.0%	2,013
Technology Hardware	CSCO	Cisco Systems	51.71	60.24	16.5	4.5	74.6	27.1	13.9	6.6	350%	2.9%	218,309
Health Care Equip/Srvcs	CVS	CVS Health	75.23	117.09	10.0	0.4	nmf	10.8	9.4	13.6	nmf	2.7%	98,653
Transportation	DAL	Delta Air Lines	48.28	62.19	nmf	1.8	nmf	-146.6	-5.1	-18.6	nmf	0.0%	30,810
Capital Goods	DE	Deere & Co	374.14	389.77	31.8	3.2	12.3	26.6	14.8	5.0	343%	1.0%	117,270
Media & Entertainment	DIS	Walt Disney	184.52	216.63	nmf	5.5	nmf	-5.7	53.9	0.8	nmf	0.0%	334,953
Real Estate	DLR	Digital Realty	140.84	170.86	22.6	nmf	5.2	2.1	nmf	nmf	nmf	3.3%	40,726
Real Estate	DOC	Physicians Realty	17.67	22.10	16.8	nmf	1.4	2.6	nmf	nmf	nmf	5.2%	3,725
Transportation	DPSGY	Deutsche Post AG	54.88	63.84	19.1	0.9	27.4	21.4	8.3	7.4	748%	1.8%	68,000
Energy	EOG	EOG Resources	72.53	85.95	49.7	3.8	2.1	-2.9	14.1	3.7	28%	2.3%	42,332
Capital Goods	ETN	Eaton Corp PLC	138.28	149.39	32.5	3.1	nmf	9.1	22.1	4.6	nmf	2.2%	55,086
Transportation	FDX	FedEx	284.04	342.61	18.1	1.0	5.0	14.8	11.8	5.1	239%	0.9%	75,368
Banks	FITB	Fifth Third Bancorp	37.45	42.25	17.4	nmf	1.6	6.6	nmf	nmf	nmf	2.9%	26,629
Retailing	FL	Foot Locker	56.25	73.72	20.1	0.8	2.2	12.3	15.3	15.3	97%	1.4%	5,809
Capital Goods	GBX	Greenbrier	47.22	53.13	34.5	0.6	1.6	2.4	6.6	19.6	83%	2.3%	1,550
Capital Goods	GD	General Dynamics	181.56	246.41	16.5	1.4	nmf	21.4	12.7	5.6	nmf	2.6%	51,482
Pharma/Biotech/Life Sci	GILD	Gilead Sciences	64.63	91.74	9.1	3.3	nmf	0.6	19.0	9.3	nmf	4.4%	81,214
Technology Hardware	GLW	Corning	43.51	46.66	31.1	3.0	4.7	3.8	20.7	2.4	118%	2.2%	33,466
Autos & Components	GM	General Motors	57.46	71.77	11.8	0.7	2.1	14.4	4.3	13.8	186%	0.0%	82,795
Media & Entertainment	GOOG	Alphabet	2068.63	2250.57	37.1	7.6	7.0	19.0	22.4	3.1	13%	0.0%	1,392,562
Diversified Financials	GS	Goldman Sachs	327.00	362.23	10.5	nmf	1.5	10.9	nmf	nmf	nmf	1.5%	116,903
Autos & Components	GT	Goodyear Tire	17.57	20.21	nmf	0.3	1.6	-33.8	59.3	11.3	241%	0.0%	4,099
Consumer Durables	HAS	Hasbro	96.12	115.39	25.7	2.4	nmf	7.6	20.0	6.4	nmf	2.8%	13,202
Energy	HFC	HollyFrontier	35.78	51.03	nmf	0.5	2.6	-10.8	-40.1	2.2	155%	3.9%	5,811
Autos & Components	HMC	Honda Motor	30.20	39.00	13.8	0.5	0.8	4.9	10.5	14.9	57%	2.9%	54,705
Technology Hardware	HPE	Hewlett Packard Enterprise	15.74	17.91	10.5	0.8	nmf	-2.6	14.0	4.7	nmf	3.0%	20,480
Software & Services	IBM	Int'l Business Machines	133.26	163.98	15.4	1.6	nmf	27.0	13.4	13.1	nmf	4.9%	119,080
Energy	INT	World Fuel Services	35.20	45.12	30.8	0.1	2.9	5.8	10.1	24.8	83%	1.4%	2,222
Semis & Cap Equipment	INTC	Intel	64.00	72.62	12.1	3.3	5.8	26.3	7.5	7.8	76%	2.2%	260,630
Materials	IP	Int'l Paper	54.07	61.47	19.3	1.0	5.0	6.2	12.5	10.9	198%	3.8%	21,241
Technology Hardware	JBL	Jabil	52.16	62.89	12.4	0.3	6.7	19.2	6.2	0.8	256%	0.6%	7,833
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	164.35	183.16	20.5	5.2	nmf	24.0	16.4	4.6	nmf	2.5%	432,685
Technology Hardware	JNPR	Juniper Networks	25.33	34.33	16.2	1.9	13.7	5.6	15.7	6.1	308%	3.2%	8,313
Banks	JPM	JPMorgan Chase	152.23	171.44	17.2	nmf	2.3	11.3	nmf	nmf	nmf	2.4%	464,531
Retailing	JWN	Nordstrom	37.87	48.26	nmf	0.6	106.7	nmf	89.1	-12.4	nmf	0.0%	5,975
Banks	KEY	KeyCorp	19.98	25.40	15.9	nmf	1.4	7.9	nmf	nmf	nmf	3.7%	19,182
Real Estate	KIM	Kimco Realty	18.75	21.75	16.0	nmf	1.6	20.5	nmf	nmf	nmf	3.6%	8,127
Semis & Cap Equipment	KLIC	Kulicke & Soffa	49.11	58.75	31.1	4.1	4.3	11.0	19.8	3.7	3%	1.1%	3,049
Food & Staples Retailing	KR	Kroger Co	35.99	42.73	10.4	0.2	4.9	28.4	8.6	13.9	347%	2.0%	27,064
Retailing	KSS	Kohl's Corp	59.61	66.64	nmf	0.6	1.8	-3.1	22.7	10.9	124%	1.7%	9,394
Consumer Dur & App	LEG	Leggett & Platt	45.65	54.75	21.4	1.4	nmf	18.3	13.2	8.7	nmf	3.5%	6,071

As of 03.31.21. nmf=Not meaningful. <sup>1</sup>=First-time recommendation. <sup>2</sup>Tangible book value. <sup>3</sup>Return on Common Equity. <sup>4</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>5</sup>Free cash flow yield. <sup>6</sup>Tangible equity.  
SOURCE: Kovitz using data from Bloomberg Finance L.P.



Industry Group	Ticker <sup>1</sup>	Company	Price	Target Price	EPS	Sales	TBV <sup>2</sup>	ROCE <sup>3</sup>	EBITDA <sup>4</sup>	Yield <sup>5</sup>	Debt/TE <sup>6</sup>	Div Yield	Mkt Cap
Capital Goods	LMT	Lockheed Martin	369.50	502.00	15.1	1.6	nmf	149.5	11.4	6.2	nmf	2.8%	102,984
Retailing	LOW	Lowe's Cos	190.18	198.82	21.5	1.5	121.1	nmf	14.0	6.4	nmf	1.3%	136,408
Semis & Cap Equipment	LRCX	Lam Research	595.24	647.11	29.1	7.1	22.0	60.0	22.7	2.4	129%	0.9%	85,065
Commerical Services	MAN	ManpowerGroup	98.90	124.14	26.9	0.3	5.6	0.9	13.3	15.4	146%	2.4%	5,434
Health Care Equip/Srvcs	MCK	McKesson	195.04	210.25	11.9	0.1	nmf	nmf	-9.2	16.3	nmf	0.9%	31,044
Consumer Durables	MDC	MDC Holdings	59.40	67.73	11.6	1.1	2.0	18.6	9.5	-1.2	59%	2.7%	4,160
Health Care Equip/Srvcs	MDT	Medtronic PLC	118.13	133.37	33.7	5.7	nmf	5.6	29.5	2.9	nmf	2.0%	159,248
Insurance	MET	MetLife	60.79	85.26	9.9	nmf	0.9	7.8	nmf	nmf	nmf	3.0%	53,763
Capital Goods	MMM	3M Co	192.68	214.97	22.0	3.5	nmf	47.0	13.9	5.9	nmf	3.1%	111,642
Materials	MOS	Mosaic Co	31.61	37.04	37.2	1.4	1.4	7.1	13.0	3.4	50%	0.6%	11,983
Pharma/Biotech/Life Sci	MRK	Merck & Co	77.09	106.74	13.0	4.1	nmf	27.6	19.1	2.9	nmf	3.4%	195,062
Diversified Financials	MS	Morgan Stanley	77.66	92.06	11.9	nmf	1.9	12.7	nmf	nmf	nmf	1.8%	146,162
Software & Services	MSFT	Microsoft	235.77	262.87	35.1	11.6	22.4	42.7	23.3	2.8	94%	1.0%	1,778,228
Semis & Cap Equipment	MU	Micron Tech	88.21	110.63	24.1	4.2	2.6	7.9	10.5	-0.8	18%	0.0%	98,678
Materials	NEM	Newmont Corp	60.27	79.66	22.8	4.2	2.4	12.7	8.8	7.4	30%	3.7%	48,283
Software & Services	NLOK	NortonLifeLock	21.26	28.33	16.2	5.0	nmf	nmf	17.5	-11.1	nmf	2.4%	12,371
Transportation	NSC	Norfolk Southern	268.52	279.96	29.0	6.9	4.6	13.4	19.1	3.1	84%	1.5%	67,418
Technology Hardware	NTAP	NetApp	72.67	81.73	17.9	2.9	nmf	155.8	13.5	6.3	nmf	2.6%	16,176
Materials	NTR	Nutrien Ltd	53.89	67.24	29.9	1.5	3.9	2.0	14.1	nmf	141%	3.4%	30,714
Telecom Services	NTTY	Nippon Telegraph	25.91	33.99	11.2	0.9	2.3	10.7	5.9	11.1	74%	3.1%	101,069
Banks	NYCB	NY Community Bancorp	12.62	16.03	13.8	nmf	1.5	7.6	nmf	nmf	nmf	5.4%	5,877
Banks	ONB	Old National Bancorp	19.34	24.11	13.0	nmf	1.7	7.8	nmf	nmf	nmf	2.9%	3,204
Software & Services	ORCL	Oracle	70.17	79.77	16.1	5.1	nmf	110.9	13.1	6.1	nmf	1.8%	202,338
Pharma/Biotech/Life Sci	PFE	Pfizer	36.23	49.76	13.3	4.2	nmf	15.2	14.5	6.0	nmf	4.2%	202,097
Banks	PNC	PNC Financial	175.41	188.56	26.1	nmf	1.7	14.2	nmf	nmf	nmf	2.6%	74,377
Utilities	PNW	Pinnacle West Capital	81.35	104.43	16.7	2.6	1.7	10.0	9.3	-5.7	125%	4.1%	9,167
Insurance	PRU	Prudential Fin'l	91.10	130.50	8.8	nmf	0.6	-0.7	nmf	nmf	nmf	5.0%	36,022
Semis & Cap Equipment	QCOM	Qualcomm	132.59	167.23	24.7	5.6	nmf	113.1	16.7	4.2	nmf	2.0%	150,622
Consumer Services	RCL	Royal Caribbean	85.61	106.05	nmf	9.9	2.7	-55.4	-11.8	-31.2	233%	0.0%	21,793
Real Estate	REG	Regency Centers	56.71	70.02	19.2	nmf	1.7	0.7	nmf	nmf	nmf	4.2%	9,640
Energy	SFL	Ship Finance	8.02	10.36	11.2	2.2	1.3	-23.6	-262.8	25.3	212%	7.5%	1,025
Capital Goods	SIEGY	Siemens AG	82.30	90.94	24.4	4.2	9.4	10.0	16.9	6.5	291%	1.9%	139,903
Food, Bev & Tobacco	SJM	JM Smucker	126.53	141.89	12.9	1.7	nmf	11.6	9.2	9.0	nmf	2.8%	13,866
Capital Goods	SNA	Snap-On Inc	230.74	239.80	19.8	3.2	4.9	17.3	13.5	7.5	47%	2.1%	12,561
Pharma/Biotech/Life Sci	SNY	Sanofi	49.46	63.90	14.1	5.7	nmf	20.2	7.2	5.1	nmf	2.8%	124,537
Technology Hardware	STX	Seagate Tech	76.75	82.92	15.6	1.7	nmf	70.1	12.8	5.3	nmf	3.5%	17,720
Diversified Financials	SYF	Synchrony Fin'l	40.66	55.01	17.1	nmf	2.4	10.2	nmf	nmf	nmf	2.2%	23,741
Telecom Services	T	AT&T	30.27	41.04	9.5	1.3	nmf	-3.3	10.5	12.7	nmf	6.9%	215,878
Pharma/Biotech/Life Sci	TAK	Takeda Pharmaceutical	18.26	24.94	18.3	nmf	nmf	3.8	12.0	11.0	nmf	4.1%	57,623
Banks	TFC	Truist Financial	58.32	71.13	15.2	nmf	2.2	6.8	nmf	nmf	nmf	3.1%	78,409
Retailing	TGT	Target	198.07	218.87	21.0	1.1	7.2	33.3	11.3	7.9	100%	1.4%	98,761
Capital Goods	TKR	Timken	81.17	92.63	19.8	1.8	16.9	14.2	12.2	7.5	415%	1.4%	6,166
Energy	TNP	Tsakos Energy	9.47	20.02	1.2	0.3	nmf	nmf	6.4	nmf	nmf	2.1%	178
Energy	TOT	Total SA	46.54	74.33	31.8	1.0	1.5	-6.9	9.3	3.3	70%	5.6%	122,393
Consumer Durables	TPR	Tapestry	41.21	51.06	35.2	2.5	58.0	-13.8	61.9	4.0	1648%	0.0%	11,450
Food, Bev & Tobacco	TSN	Tyson Foods	74.30	94.54	12.6	0.6	nmf	13.6	8.4	11.8	nmf	2.4%	27,100
Pharma/Biotech/Life Sci	VTRS	Viatrix	13.97	32.70	3.4	1.4	nmf	-3.8	21.0	14.1	nmf	3.1%	16,863
Telecom Services	VZ	Verizon	58.15	73.36	11.9	1.9	nmf	27.5	8.1	9.8	nmf	4.3%	240,741
Consumer Durables	WHR	Whirlpool	220.35	252.39	11.9	0.7	nmf	30.9	8.3	7.9	nmf	2.3%	13,832
Commerical Services	WM	Waste Management	129.02	141.58	32.0	3.6	nmf	20.6	16.6	3.2	nmf	1.8%	54,452
Food & Staples Retailing	WMT	Walmart	135.83	163.41	24.8	0.7	8.1	17.4	12.9	6.7	123%	1.6%	382,643
Materials	WRK	WestRock	52.05	63.27	18.8	0.8	10.0	-5.9	16.3	11.7	684%	1.5%	13,716
Energy	XOM	Exxon Mobil	55.83	75.19	nmf	1.3	1.5	-12.9	20.3	-1.1	33%	6.2%	236,358
Health Care Equip/Srvcs	ZBH	Zimmer Biomet	160.08	175.87	28.2	4.7	nmf	-1.1	23.9	3.8	nmf	0.6%	33,335

As of 03.31.21. nmf=Not meaningful. <sup>1</sup> =First-time recommendation. <sup>2</sup> Tangible book value. <sup>3</sup> Return on Common Equity. <sup>4</sup> Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>5</sup> Free cash flow yield. <sup>6</sup> Tangible equity.  
SOURCE: Kovitz using data from Bloomberg Finance L.P.

# Portfolio Builder

Research Team Highlights

**T**he *Prudent Speculator* follows an approach to investing that focuses on **broadly diversified** investments in **undervalued** stocks for their **long-term** appreciation potential. Does that mean we build portfolios of 20 stocks...30...? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which," but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

As for the "in which" part, readers should know we discriminate among potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We buy only those stocks we find to be undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. Our Target Prices incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal three-to-five-year investing time horizon.

Each month in this column, we highlight 10 stocks with which readers might populate their portfolios. The list is not selected based on performance, as the following methodological hierarchy is utilized: 1) First time recommendations; 2) Stocks that are unowned or under-owned in one of our four newsletter portfolios; 3) Companies that have not been highlighted in the prior five monthly editions of *The Prudent Speculator*; 4) Editor's choice. Note that we are in no way suggesting that these stocks replace those featured in prior months as we will always issue a *Sales Alert* should we choose to exit a position.

## Portfolio Builder Notes

This month, we will buy \$8,000 of **Cardinal Health** and **Lockheed Martin**, and bring **Newmont Corp** up to that level in Buckingham Portfolio. In our hypothetical Millennium Portfolio, we will add \$15,000 of **Change Healthcare** and **Leggett & Platt**, while we will raise the **AT&T** stake to that new position size. In PruFolio, we will pick up \$20,000 of **Broadcom** and **Comerica**. We have sufficient company/industry/sector exposure in our newsletter portfolios to **Qualcomm** and **Walmart**, so no new purchases of those two this month. We will transact on Tuesday, April 6.

## THIS MONTH'S 10-STOCK SELECTION

Ticker	Company	Sector	Price	Target Price
AVGO	Broadcom	Information Technology	463.66	514.66
CAH	Cardinal Health	Health Care	60.75	82.17
CHNG	Change Healthcare	Health Care	22.10	27.08
CMA	Comerica	Financials	71.74	89.84
LEG	Leggett & Platt	Consumer Discretionary	45.65	54.75
LMT	Lockheed Martin	Industrials	369.50	502.00
NEM	Newmont Corp	Materials	60.27	79.66
QCOM	Qualcomm	Information Technology	132.59	167.23
T	AT&T	Communication Services	30.27	41.04
WMT	Walmart	Consumer Staples	135.83	163.41

As of 03.31.21. SOURCE: Kovitz using data from Bloomberg Finance L.P.

## Broadcom (AVGO)

Broadcom designs and develops digital and analog semiconductors for a broad range of data center, networking, software and industrial markets. The company has been an acquisition machine, rounding up Brocade, CA Technologies and the enterprise security division of Symantec. Broadcom also tried but failed to acquire Qualcomm after the deal was blocked by the U.S. government. AVGO shares have swelled over the past year. The supply chain challenges of 2020 have largely been resolved and the company has been seeing growing lead times and increasing end-market demand. As a result, analysts expect AVGO to grow core earnings from \$22.16 in fiscal 2020 to more than \$30 by 2023, which translates to what we think is a very reasonable 2023 P/E below 16. We are fans of AVGO's strong execution and regard the company's diverse set of products, from enterprise security to wired- and wireless-networking components, as a valuable differentiator. The company also continues to buy back shares to offset employee option dilution, and it pays a hefty quarterly dividend of \$3.60 per share (3.1% annual yield).

## Cardinal Health (CAH)

Cardinal is one of the nation's largest wholesalers of pharmaceutical products, handling roughly a third of global volumes. The remainder of the business entails the distribution of medical products and contract manufacturing. Shares rebounded some 48% since the low on March 23 last year, somewhat reversing a multi-year slide

prior to the pandemic that was induced by fears of competitive pressures and lawsuits related to the opioid epidemic. 2020 offered little respite as COVID-19 ushered a slowdown in elective surgeries and a higher cost of goods. Despite these challenges, CAH resumed growth on a year-over-year basis in its most recent two fiscal quarters. We still think the company should benefit over the long term from demographic trends in the U.S. as the population continues to age and has greater health care needs. Yes, headline risk remains, especially with the shift of power in D.C., but we think investors are overly pessimistic and the shares offer a very attractive price tag of 10 times estimated earnings. The company continues to generate strong free cash flow that supports acquisitions, stock buybacks and a well-covered dividend (the yield is 3.2%).

### **Change Healthcare (CHNG)**

Change Healthcare is the leading independent provider of health care IT services, offering software and analytics solutions in support of provider network management, payments and other administrative healthcare functions that aim to enhance clinical decision-making and improve quality of care. The company announced in January that it had agreed to combine with Optum, a technology-focused division of UnitedHealth Group, in a transaction whereby CHNG holders would receive \$25.75 per share in cash. The deal, which is scheduled to close in the second half of this year, is being highly scrutinized by regulators (the Department of Justice extended its review period last week), while we note that the American Hospital Association (AHA) has formally expressed its opposition. Of course, we think the antitrust risks are well discounted, given the current 16% spread between the market and merger prices. Moreover, we are attracted to Change's competitive position should the union not be consummated, and note the AHA's comment, "The types of services offered by OptumInsight and Change are a must have for health care providers to navigate byzantine insurance reimbursement and ensure accurate and timely payment." CHNG trades at 15 and 13 times the respective fiscal 2022 and 2023 consensus EPS estimates.

### **Comerica (CMA)**

Comerica is a financial services company operating with three core business segments: The Commercial Bank, The Retail Bank and Wealth Management. CMA has operations in Texas, Arizona, California, Florida and Michigan, with select businesses in several other states.

Although the stock has been on a tear over the last year, we believe there is more ahead. Shares have definitely benefited from the recent rise in interest rates, and as we look forward, even a modest continuation of rates moving up would be highly beneficial as a large percentage of its loan book is adjustable rate loans. Additionally, we like that the bank has one of the most attractive deposit franchises and its growth in Texas and California has helped diversify risk in Michigan, where it remains a dominant player. We like Comerica's longer-term prospects as the company realizes value from its deep, advisor-style relationships with small and midsize business clients. Fee income and wealth management also help support the bottom line, where EPS exceeded \$7 in 2018 and 2019. The shares presently sport a dividend yield of 3.8%.

### **Leggett & Platt (LEG)**

Leggett & Platt is a diversified manufacturer serving an array of industries including bedding (coils used in mattresses, specialty foam used in bedding and furniture, and mattresses), automotive, aerospace, and steel wire and rod. About two-thirds of L&P's steel wire output is used in making its own products. Shares have been in consolidation mode since rallying 59% from a bottom last March through August. Elaborating on the company's Q4 results, CEO Karl Glassman said, "We expect continued recovery into 2021 as a result of strong consumer demand for home-related items and global automotive, and modest improvement in our businesses in industries that are experiencing ongoing impacts from COVID-19. We also expect continued supply chain constraints, inflation in commodity costs, and recovery of those higher costs through selling price increases." We like that LEG has a history of disciplined cash use and that the company is a leader in most of its markets, with few large competitors. We also appreciate that management is incentivized to enhance returns on capital employed and cash generation. L&P has increased its dividend for 49 consecutive years, and the yield is currently 3.5%.

### **Lockheed Martin (LMT)**

Lockheed is a global security and aerospace company that is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. With the Biden administration focused on an infrastructure plan, following a giant COVID-19 relief package, we think that any defense budget cuts remain off the radar for now.



Lockheed continues to earn international government defense contracts, with a few customers indicating that they will purchase more units of the very expensive F-35 fighter jet. We like the combination of cost-plus contracts with R&D costs effectively paid for by customers, and believe they offer the ability to use cash flow for share buybacks and generous dividends (the yield is 2.8%). The stock also trades with a forward P/E of 14 and analysts expect EPS to grow from \$24.30 in 2020 to nearly \$30 in 2023.

### **Newmont Corp (NEM)**

Approaching the two-year anniversary of its big acquisition of Goldcorp, Newmont produced 5.9 million ounces of the precious yellow metal in 2020. Management expects to produce 6.2 million to 7.0 million ounces of gold per year for 2021 through 2025, all while driving production costs down by over \$100 per ounce. Volatile markets early last year were a boon for gold, sending the spot price over \$2000 per ounce at one point. And although current prices have retreated by 16% as cryptocurrencies have siphoned away some safe-haven demand, one must go all the way back to 2012 to find prices as high as today. NEM shares have performed well, up 33% over the past year, but we continue to like the scale offered through the Goldcorp union and believe there are still opportunities for cost savings. The stock changes hands at a reasonable forward P/E ratio below 16, while we continue to like the leveraged exposure to gold NEM provides. Shares yield a rich 3.7%.

### **Qualcomm (QCOM)**

Qualcomm is a designer and manufacturer of wireless communications equipment. The company holds many wireless-related patents and is a key contributor to the development of CDMA, a communications technology that is heavily used around the world. The semiconductor shortage in February and March sent valuations for many constituents in the PHLX Semiconductor index soaring, while QCOM was largely left behind. We think it is unfair to leave QCOM out of the conversation, as the company should continue to benefit from widespread adoption of its products, including in Apple's iPhone. We expect QCOM to see significant demand growth in 5G hardware and next-generation Wi-Fi chips, which is reflected in analyst EPS estimates above \$8 for fiscal 2022, nearly double the 2020 figure. We are sure that the company still maintains a fleet of attorneys ready to litigate, but we are glad that QCOM has been rewarded for moving past its litigation-centric business model of yesteryear. Qualcomm's

well-covered dividend, unmodified during the pandemic, pencils out to a 2.0% yield.

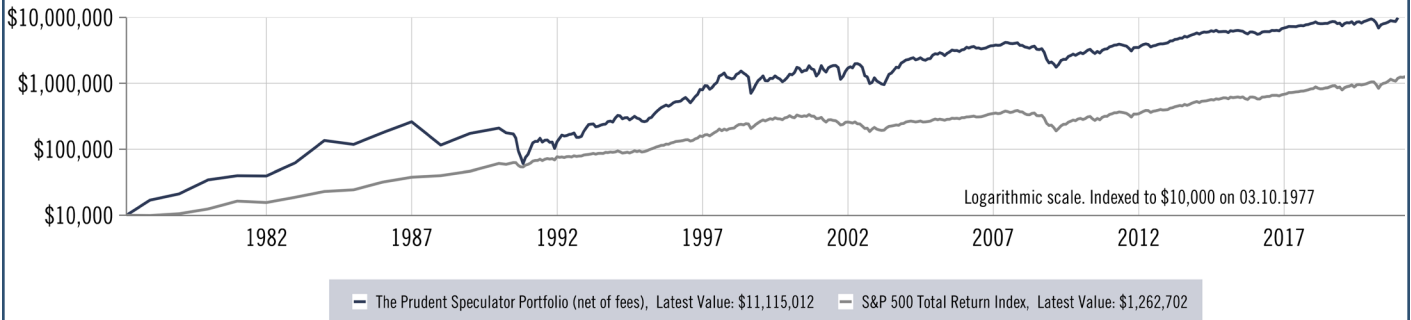
### **AT&T (T)**

Telecom behemoth AT&T provides telephone, television, internet and wireless service across the country. T is the largest communications company in the world by revenue, has more than 100 million wireless mobility subscribers and owns a library of 100,000+ hours of Warner Brothers content, including 10,000+ hours of HBO Max. After falling off a cliff in 2019, shares have yet to recover. AT&T made expensive investments in HBO and 5G, which have not brought the expected revenue growth, and the networks of competitors Verizon and T-Mobile are roughly equivalent in terms of practical performance. We think this means T offers the most upside of the major telecom providers in exchange for the most execution risk. AT&T announced plans earlier this year to spin off DirecTV, AT&T TV Now and U-Verse, which we think will free up capital and close a costly chapter in the firm's history (T bought DirecTV for \$67 billion in 2015 and the estimated spinoff value is \$16 billion). We believe that 5G service is a high-probability avenue for growth, especially in rural areas and we like the favorable valuation (9.7 times forward P/E) and huge dividend yield (6.9%).

### **Walmart (WMT)**

Retail titan Walmart conducts domestic operations under numerous store formats, has an expanding international footprint and has made great strides in growing its online presence. There is no doubt that competition is fierce within retail, but we applaud Walmart for its continuous transformation to build a customer-centric seamless omni-channel ecosystem. This includes integration of its ecommerce, grocery and general merchandising businesses, as well as the continued rollout of various ways for guests to shop. In the past year, WMT has expanded same-day delivery locations from 2,000 to over 3,000 and launched Walmart+ to compete with Amazon Prime. Despite additional costs required to adapt to COVID-19, we note that the company increased its dividend for the 48th consecutive year (yield is 1.6%) and recently approved a new \$20 billion share repurchase program. We continue to think investments in Jet.com, Flipkart and JD.com, along with its foray into service sectors like Health Care, Fin-Tech and others lengthen the retailer's runway for growth and diversify revenue. We also like that WMT continues to generate strong free cash flow. ■

## THE PRUDENT SPECULATOR (TPS) PORTFOLIO STANDARDIZED PERFORMANCE



Performance as of 02.28.21	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	Inception
TPS Portfolio (net of fees)	6.64	6.64	33.63	10.87	14.50	9.62	11.34	8.15	10.14	12.95	17.28
S&P 500	1.72	1.72	31.29	14.14	16.82	13.04	13.43	9.80	7.89	9.44	11.62
Russell 3000 Value	5.72	5.72	23.34	8.35	12.17	8.82	10.33	7.36	7.35	8.87	NA
Russell 3000	2.67	2.67	35.33	14.97	17.41	12.95	13.44	9.92	8.30	9.60	NA

Year	Total Firm Assets <sup>1</sup>	Composite Total Assets <sup>1</sup>	# of Accounts	Composite Gross Return (%)	Composite Net Return (%)	Bench Return (%)	Bench 2 Return (%)	Bench 3 Return (%)	Composite 3-Yr STD (%)	Bench 3-Yr STD (%)	Bench 2 3-Yr STD (%)	Bench 3 3-Yr STD (%)	Composite Dispersion (%)	Wrap-Fee Paying (%)	Non-Fee Paying (%)
2020	5,990	21	38	10.52	9.78	18.40	2.87	20.89	20.70	18.53	19.96	19.41	0.74	5.00	16.00
2019	5,046	22	47	28.29	27.28	31.49	26.26	31.02	13.45	12.11	9.55	12.38	0.32	5.00	16.20
2018	3,674	18	51	-8.46	-9.29	-4.38	-8.57	-5.25	11.48	10.96	11.21	11.34	0.25	4.11	14.31
2017	946	19	42	19.78	18.83	21.84	13.20	21.13	11.04	10.06	10.48	10.23	0.34	6.93	24.69
2016	711	7	10	18.51	18.02	11.98	18.42	12.75	12.05	10.74	11.12	11.04	N/A	5.60	39.89
2015	701	2	<6	-4.23	-4.23	1.41	-4.13	0.47	12.01	10.62	10.90	10.73	N/A	<1	100.00
2014	827	3	<6	5.35	5.35	13.69	12.69	12.56	11.36	9.10	9.49	9.42	N/A	<1	100.00
2013	788	3	<6	41.13	41.07	32.41	32.69	33.57	14.60	12.11	13.08	12.71	N/A	<1	100.00
2012	676	2	<6	18.00	17.98	15.98	17.56	16.43	17.74	15.30	16.03	15.95	N/A	<1	100.00
2011	476	2	<6	-2.34	-2.35	2.12	-0.09	1.02	21.42	18.16	19.98	18.86	N/A	<1	100.00

## IMPORTANT INFORMATION

<sup>1</sup>Presented in millions. Note that March 2021 composite calculations cannot be completed until after press-time. Kovitz Investment Group Partners, LLC ("KIG") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. KIG has been independently verified for the periods January 1, 1997 through December 31, 2018. The verification report is available on request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

Kovitz Investment Group, LLC underwent an organizational change effective January 1, 2016, and is now Kovitz Investment Group Partners, LLC. The previous manager of the strategy, AFAM Capital, Inc. (AFAM) underwent an organizational change effective October 1, 2018, and is now a division of KIG (AFAM Division). AFAM claimed compliance with GIPS® and had been independently verified for the periods January 1, 1996 through December 31, 2017. The staff of the AFAM Division have provided the same services throughout the entire period, and the persons currently responsible for managing Composite portfolios have been primarily responsible for portfolio management throughout the entire period shown. KIG, an investment adviser registered under the Investment Advisers Act of 1940, manages equity, fixed income, and hedged equity portfolios for its clients.

The Composite was created December 31, 2015, and the inception date for portfolio performance was March 10, 1977. The Composite includes all discretionary portfolios managed according to the TPS strategy (Strategy). From March 10, 1977 through December 31, 2015, the Composite consisted of 1 portfolio managed according to the Strategy. The portfolios eligible for the Composite must follow the Strategy. The minimum account size for inclusion in the Composite is \$50,000. Composite policy originally required the temporary removal of any portfolio incurring an aggregate net cash flow of at least 25% of portfolio assets. On July 1, 2016, the cash flow policy was updated to reflect the temporary removal of any portfolio incurring cash inflow or outflow of 25% or more during the month – "net" and "aggregate" are no longer applicable. The removal of such a portfolio occurs at the beginning of the month in which the significant cash flow occurs, and the portfolio re-enters the Composite at the beginning of the month after the cash flow. This policy is reviewed and maintained monthly. The Composite includes portfolios that utilize margin. The firm maintains a complete list and description of Composites, which is available upon request.

The U.S. Dollar is the currency used to express performance. The Composite includes portfolios that are charged bundled or wrap fees and portfolios are charged transaction fees or trading costs. Bundled fee portfolios pay a fee based on a percentage of assets under management in place of a transaction fee. They include the advisor's fee and, in most cases, also include a fee for investment management and portfolio monitoring. Returns are presented net of management fees, gross of withholding taxes on any dividends, interest or capital gains, and include the effects of trading costs and reinvestment of all income. Net of fee performance was calculated using actual management fees charged to each portfolio in the Composite. Gross returns include the effects of the reinvestment of all income, and are stated gross of all fees except for transaction fees, when charged.

Investing involves risk, principal loss is possible, and there can be no assurance that investment objectives will be achieved. Past performance is not indicative of future results. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Actual investment management fees will vary, beginning at 1.5% per annum. Our standard management fee schedule is described in more detail in KIG's Form ADV Part 2A. The measure of internal dispersion presented above is an asset-weighted standard deviation. The 3-year standard deviation presented above is calculated using monthly net-of-fees returns. The 3-year standard deviation is not presented when less than 36 months of returns are available.

For comparison purposes, the Composite's primary benchmark is the S&P 500 Index, a broad market sample based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The secondary benchmark is the Russell 3000 Index, which measures the performance of the largest 3,000 US companies and represents approximately 98% of the investable US equity market. Also presented is the Russell 3000 Value Index, which measures the performance of the value sector (lower price-to-book ratios and lower expected growth rates) of the Russell 3000 Index. It is not possible to invest directly in an index.

Nothing presented herein is, or is intended to constitute, specific investment advice or marketing material. Information provided reflects the views of KIG as of a particular time. Such views are subject to change at any point and KIG shall not be obligated to provide notice of any change. Any securities information regarding holdings, allocations and other characteristics are presented to illustrate examples of the types of investments or allocations that KIG or AFAM may have bought or pursued as of a particular date. It may not be representative of any current or future investments or allocations and nothing should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While KIG has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in securities. Past performance is not a guarantee of future performance.