

Market Commentary Monday, June 14, 2021

June 14, 2021

EXECUTIVE SUMMARY

Market Week – S&P Closes at All-Time High

Treasury Rally – Sizable Drop in the 10-Year Yield

Value – Inexpensive Stocks Prefer Higher Bond Yields and Higher Inflation

Econ News – 13-Year High for the CPI

Econ Outlook – World Bank Lifts GDP Projections

Sentiment – Still Little Enthusiasm for Equities

Investing vs. Speculating – Al Frank Weighs In

June Swoon – 25 Undervalued Stocks Down 3%+ in June

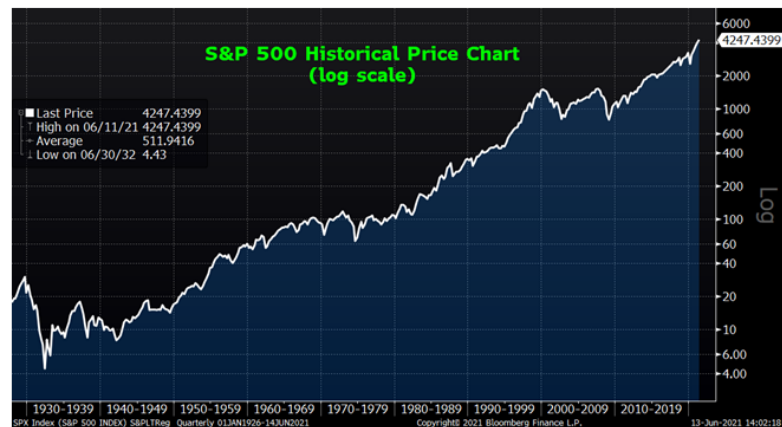
Stock News – Updates on BIIB, CAT, FDX, STX & GT

Market Review

It was a relatively subdued trading week, even as the S&P 500 on Friday closed at an all-time high.



The Bursting of the Tech Bubble in 2000-2002, the Financial Crisis/Great Recession in 2007-2009 and the COVID-19 Pandemic Crash of 2020 are about the only visible blips on the long-term (back to 1927) chart of the S&P 500 index, but if one utilizes a log-scale for the Y-axis, the swings of the equity markets over the past 90+ years are more easily evident. Of course, the long-term trend has been very favorable AND these charts show only price appreciation of the S&P 500, ignoring the historically lucrative impact of dividends and their reinvestment.



Of course, we were again reminded that it is a market of stocks and not a stock market, as the Dow Jones Industrial Average and the Value indexes all ended the five days in the red,...



Overall market volatility remained relatively subdued, even as the wild gyrations in “meme” stocks continued and concern remained about inflation, but the second trading week of June saw the average stock close modestly lower, despite the S&P 500 ending at a record.

Total Returns Matrix									
Last Week	2021 YTD	Since 10.31.20	Since 7.9.20	Last 12 Months	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
0.29	-2.19	0.93	2.93	3.30	9.99	9.47	14.38	14.46	Bloomberg Barclays Global-Aggregate Bond
0.47	-1.71	-0.61	-1.09	-0.20	4.58	9.44	17.44	16.87	Bloomberg Barclays US Aggregate Bond
-0.78	13.65	31.80	36.67	39.98	90.27	38.39	45.74	116.80	Dow Jones Industrial Average
-0.05	16.05	36.14	42.83	46.46	95.86	36.95	40.35	81.98	New York Stock Exchange Composite
1.95	8.54	26.00	31.50	45.18	102.17	71.23	81.68	173.59	Russell 3000 Growth
-0.40	19.51	41.55	49.97	49.55	97.85	36.79	40.42	80.09	Russell 3000 Value
0.75	13.83	33.42	40.25	47.79	101.28	55.08	61.92	125.43	Russell 3000
-0.05	19.96	42.97	53.87	55.17	116.19	50.27	55.72	108.43	S&P 500 Equal Weighted
0.43	13.84	31.15	36.71	43.73	93.73	52.53	61.44	123.13	S&P 500
1.43	10.09	25.70	31.06	42.62	96.72	63.17	75.42	158.06	S&P 500 Growth
-0.61	18.07	37.94	43.72	43.62	87.58	38.43	44.00	84.43	S&P 500 Value
1.64	6.94	25.45	31.71	41.46	103.64	51.12	51.66	124.86	S&P 500 Pure Growth
-1.81	31.96	63.33	81.53	74.34	143.85	34.29	27.91	77.89	S&P 500 Pure Value

As of 06.11.21. Source Kovitz using data from Bloomberg

...with the big drop in the yield and rally in the price of the 10-Year U.S. Treasury to blame,...



Incredibly, a spike in the consumer price index for May to a 13-year high compelled Treasury investors to load up on government bonds, driving the yield on the U.S. 10-Year down to 1.45% from 1.55% the week prior.



...as history suggests, and the major advance for inexpensive stocks over the last 11 months validates,...



Total Returns Matrix			
2021 YTD	Since 10.31.20	Since 7.9.20	Name
-2.19	0.93	2.93	Bloomberg Barclays Global-Aggregate Bond
-1.71	-0.61	-1.09	Bloomberg Barclays US Aggregate Bond
13.65	31.80	36.67	Dow Jones Industrial Average
16.05	36.15	42.84	New York Stock Exchange Composite
8.54	26.00	31.50	Russell 3000 Growth
19.51	41.55	49.97	Russell 3000 Value
13.83	33.42	40.25	Russell 3000
19.96	42.97	53.87	S&P 500 Equal Weighted
13.84	31.15	36.71	S&P 500
10.09	25.70	31.06	S&P 500 Growth
18.07	37.94	43.72	S&P 500 Value
6.94	25.45	31.71	S&P 500 Pure Growth
31.96	63.33	81.53	S&P 500 Pure Value
<i>As of 06.11.21. Source Kovitz using data from Bloomberg</i>			

Many market watchers believe that higher interest rates are a headwind for equities, but this has not been the case over the last 11 months, especially for stocks of the Value persuasion. Believe it or not, the yield on the 10-Year U.S. Treasury was 0.62% on 7.9.20 and 1.45% on 6.11.21.

...inexpensively priced stocks perform better when interest rates are rising.



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	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

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	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2020.

The renewed and ongoing interest, we think, in fixed income instruments is somewhat puzzling,...



Combined Estimated Long-Term Fund Flows and ETF Net Issuance					
Millions of dollars					
Week Ended	6/2/2021	5/26/2021	5/19/2021	5/12/2021	5/5/2021
Total Equity	4,338	7,980	1,471	14,866	9,218
Domestic	810	2,952	-3,176	9,700	5,129
World	3,528	5,028	4,647	5,165	4,090
Hybrid	-366	430	-268	-657	-1,370
Total Bond	10,363	10,403	7,362	9,544	16,599
Taxable	8,988	7,793	5,903	8,693	15,386
Municipal	1,375	2,610	1,459	850	1,213
Commodities	1,445	1,719	887	1,066	550
Total	15,779	20,531	9,452	24,819	24,998

Source: Investment Company Institute

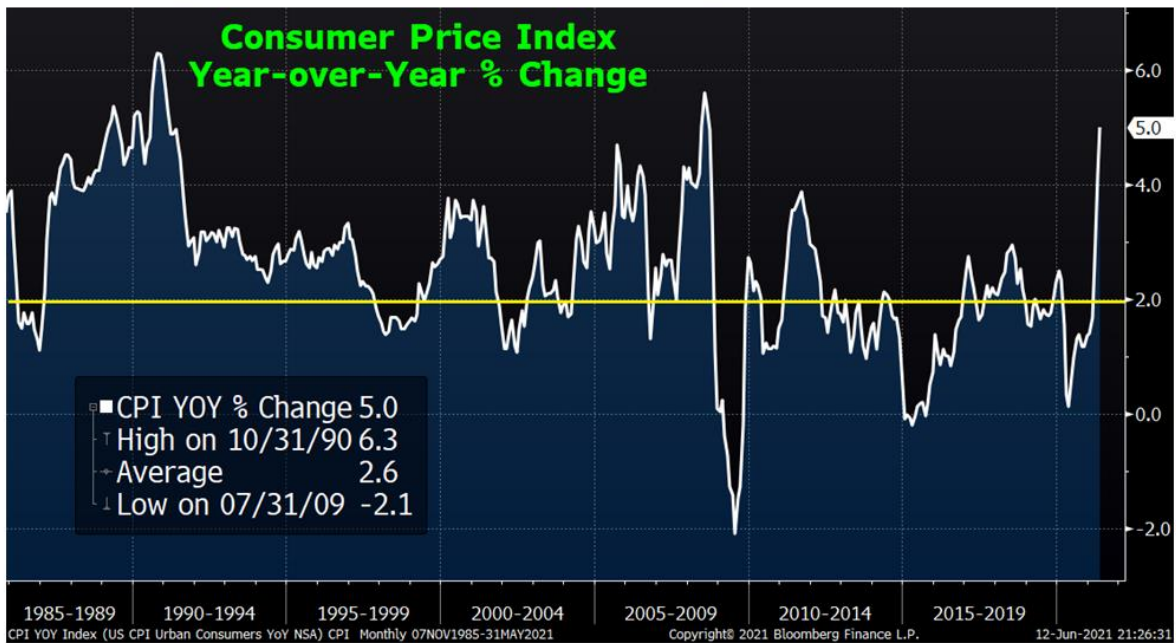
Investment Company Institute											
Long-Term Mutual Fund and Exchange-Traded Fund (ETF) Flows											
Millions, U.S. dollars											
Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total	Month	Stocks Domestic	Bonds Total
Jan-15	-14,465	17,535	Sep-16	-5,713	24,669	May-18	10,068	11,749	Jan-20	-24,544	73,855
Feb-15	5,547	30,321	Oct-16	-23,109	13,855	Jun-18	-21,004	16,995	Feb-20	-28,220	25,064
Mar-15	-1,494	4,905	Nov-16	22,993	-13,289	Jul-18	1,007	22,495	Mar-20	-7,485	-273,714
Apr-15	-34,681	11,027	Dec-16	18,859	-4,142	Aug-18	-6,660	17,219	Apr-20	2,664	14,672
May-15	-17,287	5,010	Jan-17	5,097	31,037	Sep-18	886	18,526	May-20	-20,929	73,166
Jun-15	-7,023	6,324	Feb-17	17,613	33,991	Oct-18	-9,657	-27,700	Jun-20	-24,819	100,103
Jul-15	-14,864	-1,255	Mar-17	9,411	36,562	Nov-18	2,783	-7,459	Jul-20	-46,524	98,490
Aug-15	-18,569	-18,122	Apr-17	-8,266	22,064	Dec-18	-28,953	-49,512	Aug-20	-57,594	84,113
Sep-15	-4,725	-10,849	May-17	-10,725	33,070	Jan-19	-21,195	29,308	Sep-20	-28,900	51,000
Oct-15	-807	15,397	Jun-17	-7,944	29,372	Feb-19	3,632	45,138	Oct-20	-52,484	63,918
Nov-15	654	-5,573	Jul-17	-12,518	29,139	Mar-19	-3,654	38,412	Nov-20	41,143	58,854
Dec-15	476	-25,043	Aug-17	-22,771	25,078	Apr-19	-5,307	40,565	Dec-20	-34,003	76,186
Jan-16	-27,222	7,686	Sep-17	-9,775	33,440	May-19	-24,652	21,332	Jan-21	-37,318	93,758
Feb-16	-9,108	11,915	Oct-17	3,166	36,110	Jun-19	-11,997	39,771	Feb-21	45,116	71,788
Mar-16	7,711	29,296	Nov-17	-4,417	19,788	Jul-19	-7,889	44,811	Mar-21	53,232	51,291
Apr-16	-12,610	22,114	Dec-17	-9,054	19,491	Aug-19	-29,908	22,304	Apr-21	-1,013	79,728
May-16	-14,252	16,925	Jan-18	10,778	46,287	Sep-19	-4,650	38,482			
Jun-16	-15,530	16,623	Feb-18	-41,444	2,706	Oct-19	-24,645	43,187			
Jul-16	292	33,575	Mar-18	-22,152	14,148	Nov-19	-11,716	44,480			
Aug-16	-9,956	30,859	Apr-18	-7,403	24,176	Dec-19	-27,500	50,733	Totals:	-727,976	1,859,330

While there have been modest net inflows into U.S. equity funds in recent weeks, the long-playing investor love affair with fixed income remains intact, per data on flows for stock and bond mutual and exchange traded funds as calculated by the Investment Company Institute. With the major equity market averages now near all-time highs, one wonders where stocks would be if fund folks actually liked them!

...given the surge in inflation, with Uncle Sam reporting last week a major increase in consumer prices.



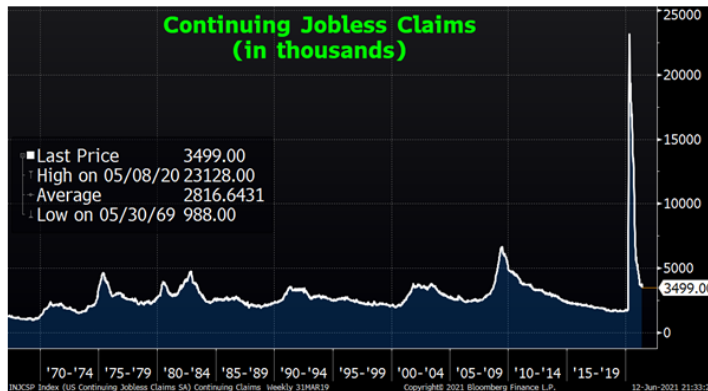
Arguably transitory factors such as higher prices for used cars and trucks, furniture, airline fares and apparel the main culprits, the consumer price index (CPI) jumped by 5.0% in May on a year-over-basis, the highest level of inflation since August 2008.



We recognize that the Federal Reserve is of the mind that inflationary pressures will be transitory, while there continue to be far more folks out of work than we would like,...



The jobs market continued to improve in the latest week, with new filings for unemployment benefits falling to a seasonally adjusted pandemic low of 376,000 for the period ended June 5, down 9,000 from the week prior.



Continuing claims filed through state programs inched lower to 3.50 million, also a pandemic low, though there have been more than 83 million jobless applications filed over the last 64 weeks.

...and the latest reads on small business and consumer sentiment came in mixed,...



The NFIB Small Business Index for May pulled back slightly to 99.6, down 0.2 points from April's pandemic high, with the figure also above the 30-year average. Meanwhile, the preliminary Univ. of Michigan gauge of consumer sentiment this month rose to a much-better-than-estimated 86.4, up from a final reading of 82.9 in May. Given that the median for this gauge has been 90.2, consumers are still a long way from feeling optimistic.



...but the World Bank last week boosted its forecast for U.S. and global economic growth.



The World Bank Global Economic Prospects June 2021

4 CHAPTER 1

GLOBAL ECONOMIC PROSPECTS | JUNE 2021

TABLE 1.1 Real GDP¹
(Percent change from previous year)

	2018	2019	2020e	2021f	2022f	2023f	Percentage point differences from January 2021 projections	
							2021f	2022f
World	3.2	2.5	-3.5	5.6	4.3	3.1	1.5	0.5
Advanced economies	2.3	1.6	-4.7	5.4	4.0	2.2	2.1	0.5
United States	3.0	2.2	-3.5	6.8	4.2	2.3	3.3	0.9
Euro area	1.9	1.3	-6.6	4.2	4.4	2.4	0.6	0.4
Japan	0.6	0.0	-4.7	2.9	2.6	1.0	0.4	0.3
Emerging market and developing economies	4.6	3.8	-1.7	6.0	4.7	4.4	0.8	0.4
East Asia and Pacific	6.5	5.8	1.2	7.7	5.3	5.2	0.3	0.1
China	6.8	6.0	2.3	8.5	5.4	5.3	0.6	0.2
Indonesia	5.2	5.0	-2.1	4.4	5.0	5.1	0.0	0.2
Thailand	4.2	2.3	-6.1	2.2	5.1	4.3	-1.8	0.4
Europe and Central Asia	3.5	2.7	-2.1	3.9	3.9	3.5	0.6	0.1
Russian Federation	2.8	2.0	-3.0	3.2	3.2	2.3	0.6	0.2
Turkey	3.0	0.9	1.8	5.0	4.5	4.5	0.5	-0.5
Poland	5.4	4.7	-2.7	3.8	4.5	3.9	0.3	0.2
Latin America and the Caribbean	1.8	0.9	-6.5	5.2	2.9	2.5	1.4	0.1
Brazil	1.8	1.4	-4.1	4.5	2.5	2.3	1.5	0.0
Mexico	2.2	-0.2	-8.3	5.0	3.0	2.0	1.3	0.4
Argentina	-2.6	-2.1	-9.9	6.4	1.7	1.9	1.5	-0.2
Middle East and North Africa	0.6	0.6	-3.9	2.4	3.5	3.2	0.3	0.3
Saudi Arabia	2.4	0.3	-4.1	2.4	3.3	3.2	0.4	1.1
Iran, Islamic Rep. ³	-6.0	-6.8	1.7	2.1	2.2	2.3	0.6	0.5
Egypt, Arab Rep. ²	5.3	5.6	3.6	2.3	4.5	5.5	-0.4	-1.3
South Asia	6.4	4.4	-5.4	6.8	6.8	5.2	3.6	3.0
India ³	6.5	4.0	-7.3	8.3	7.5	6.5	2.9	2.3
Pakistan ²	5.5	2.1	-0.5	1.3	2.0	3.4	0.8	0.0
Bangladesh ²	7.9	8.2	2.4	3.6	5.1	6.2	2.0	1.7
Sub-Saharan Africa	2.7	2.5	-2.4	2.8	3.3	3.8	0.0	-0.2
Nigeria	1.9	2.2	-1.8	1.8	2.1	2.4	0.7	0.3
South Africa	0.8	0.2	-7.0	3.5	2.1	1.5	0.2	0.4
Angola	-2.0	-0.6	-5.2	0.5	3.3	3.5	-0.4	-0.2

“The global economy is set to expand 5.6% in 2021—its strongest post-recession pace in 80 years. This recovery is uneven and largely reflects sharp rebounds in some major economies.”
— The World Bank

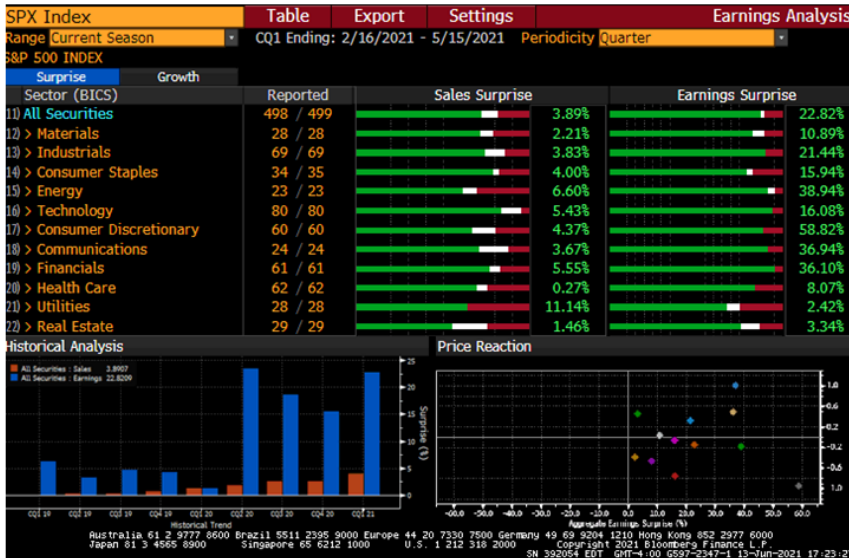
Not surprisingly, we prefer a stronger economic climate, as it bolsters corporate profit growth,...



Q1 earnings reporting season was fantastic, relative to analyst projections that were still too pessimistic in their top- and bottom-line estimates. 87.1% of S&P 500 companies topped EPS expectations and a very-high 72.2% exceeded revenue forecasts.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2022	\$55.88	\$210.19
9/30/2022	\$53.75	\$203.08
6/30/2022	\$50.68	\$195.87
3/31/2022	\$49.88	\$189.03
12/31/2021	\$48.77	\$186.62
9/30/2021	\$46.54	\$176.03
6/30/2021	\$43.84	\$167.39
3/31/2021	\$47.47	\$150.34
ACTUAL		
12/31/2020	\$38.18	\$122.37
9/30/2020	\$37.90	\$123.37
6/30/2020	\$26.79	\$125.28
3/31/2020	\$19.50	\$138.63
12/31/2019	\$39.18	\$157.12
9/30/2019	\$39.81	\$152.97
6/30/2019	\$40.14	\$154.54
3/31/2019	\$37.99	\$153.05
12/31/2018	\$35.03	\$151.60
9/30/2018	\$41.38	\$150.42
6/30/2018	\$38.65	\$140.37
3/31/2018	\$36.54	\$132.23
12/31/2017	\$33.85	\$124.51

Source: Standard & Poor's. As of 6.10.21



...and market history dating back to 1927 and 1957 shows that Value stocks, on average, have been a fantastic hedge against inflation of 5% or greater.



Inflation Jumps to 13-Year High

May price rise was 5% as the economic rebound from virus lockdowns accelerated

By GWYNETH GULLIFORD

The U.S. economy's rebound from the pandemic is driving the biggest surge in inflation in nearly 13 years, with consumer prices rising in May by 5% from a year ago.

The Labor Department said last month's increase in the consumer-price index was the

largest since August 2008, when the reading rose 5.4%. The core-price index, which excludes the often-volatile categories of food and energy, jumped 3.8% in May from the year before—the largest increase for that reading since June 1992.

Consumers are seeing higher prices for many of their purchases, particularly big-ticket items such as vehicles. Prices for used cars and trucks leapt 7.3% from the previous month, driving one-third of the rise in the overall index. The indexes for furniture, airline fares and apparel

also rose sharply in May. A separate reading showed the U.S. labor market continued to heal from the pandemic, with initial claims for unemployment benefits falling to another pandemic low.

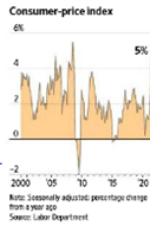
Stocks edged higher on the inflation and labor-market news. The S&P 500 set a closing record, while both the Nasdaq Composite and the Dow Jones Industrial Average are within 1% of new highs.

May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed

business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

Overall prices jumped at a 9.7% annualized rate over the three months ended in May. On a month-to-month basis, overall prices rose a seasonally adjusted 0.6% and core

◆ Jobless claims drop, but hiring falls short. — A2
◆ Heard on the Street: Step into inflation's looking-glass. — B10



While transitory factors appear to continue to be the cause, the consumer price index jumped in May by 5.0% on a year-over-year basis...which if history is a guide bodes well for equity prices, especially Value stocks, over the next 3, 6 and 12 months!

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value	Growth	Value	Growth	Value	Growth
	Stocks 3 Month	Stocks 3 Month	Stocks 6 Month	Stocks 6 Month	Stocks 12 Months	Stocks 12 Months
Arithmetic Average	4.2%	3.3%	8.3%	6.5%	19.3%	15.1%
Geometric Average	3.6%	2.5%	6.9%	4.7%	17.2%	12.0%
Median	4.4%	3.5%	6.7%	4.8%	18.8%	15.8%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-30.3%	-48.0%
Count	156	156	156	156	156	156

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value	Growth	Value	Growth	Value	Growth
	Stocks 3 Month	Stocks 3 Month	Stocks 6 Month	Stocks 6 Month	Stocks 12 Months	Stocks 12 Months
Arithmetic Average	3.7%	2.6%	8.0%	5.5%	19.4%	13.5%
Geometric Average	3.0%	1.9%	6.3%	4.0%	16.4%	10.9%
Median	3.6%	2.2%	5.6%	4.1%	16.6%	11.3%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-36.0%	-33.7%	-54.2%	-41.7%	-55.8%	-48.0%
Count	228	228	228	228	228	228

Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value	Growth	Value	Growth	Value	Growth
	Stocks 3 Month	Stocks 3 Month	Stocks 6 Month	Stocks 6 Month	Stocks 12 Months	Stocks 12 Months
Arithmetic Average	3.7%	2.9%	7.5%	5.8%	14.7%	11.2%
Geometric Average	3.2%	2.4%	6.6%	5.0%	12.9%	9.5%
Median	4.0%	3.3%	8.1%	6.3%	16.9%	12.6%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-46.3%	-36.6%	-52.2%	-39.9%
Count	610	610	607	607	601	601

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 03.31.21.

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value	Growth	Value	Growth	Value	Growth
	Stocks 3 Month	Stocks 3 Month	Stocks 6 Month	Stocks 6 Month	Stocks 12 Months	Stocks 12 Months
Arithmetic Average	4.3%	3.2%	8.3%	6.3%	16.2%	12.1%
Geometric Average	3.2%	2.5%	6.3%	4.9%	12.0%	9.2%
Median	4.0%	3.7%	8.2%	6.7%	16.3%	13.1%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	895	895	892	892	886	886

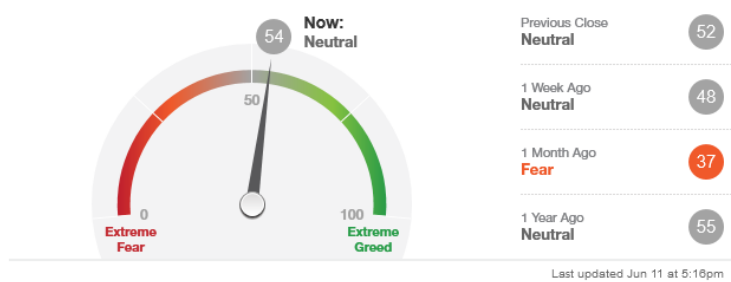
Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

No doubt anything can happen as we go forward, so we are always braced for volatility, but we retain our enthusiasm for the long-term prospects of our broadly diversified portfolios of what we believe to be undervalued stocks. And, we don't mind, from a contrarian perspective, that other folks are not overly optimistic about equities these days,...



Fear & Greed Index

What emotion is driving the market now?



Seven Fear & Greed Indicators

Fear & Greed Over Time

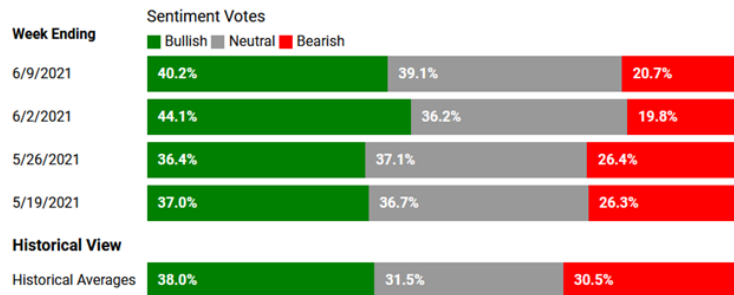


There remains plenty of frothiness in richly valued (or impossible to value) areas of the equity market, but the *CNNMoney* Fear & Greed Index is Neutral, with overall market enthusiasm per this gauge of seven indicators held back by Extreme Fear readings for Stock Price Strength and Safe Haven Demand. Put and Call Options is showing Extreme Greed and Market Volatility is Neutral.

...with *The Wall Street Journal* reporting on Saturday that U.S. pension funds shifted \$90 billion out of stocks during the first quarter of the year with \$41 billion going into fixed income, per data from Bank of America. Given that the Barclays Global and U.S. Aggregate Bond indexes have YTD total returns of -2.19% and -1.71%, respectively, versus +19.96% for the S&P 500 Equal Weight index, it would seem professional investors are about as successful at market timing as those on Main Street, though we respect that performance can change very quickly.



What Direction Do AAIL Members Feel The Stock Market Will Be In The Next 6 Months?



The gauge is widely viewed as a contrarian indicator, and the latest AAIL Sentiment Survey released on Wednesday evening, June 9, 2021, saw the number of Bulls drop and the number of Bears rise, with the Bull-Bear Spread coming in at 19.5, decidedly above the 7.5 average.

AAIL Bull-Bear Spread											
	Low	High		R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Reading of the	Reading of the	Count	Next 1-Week Arithmetic	Next 1-Week Geometric	Next 1-Month Arithmetic	Next 1-Month Geometric	Next 3-Month Arithmetic	Next 3-Month Geometric	Next 6-Month Arithmetic	Next 6-Month Geometric
Decile	Range	Range		Average TR	Average TR	Average TR	Average TR	Average TR	Average TR	Average TR	Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	901	0.27%	0.23%	1.27%	1.14%	3.69%	3.30%	7.20%	6.44%
ABOVE	8.1	62.9	864	0.17%	0.15%	0.49%	0.40%	1.87%	1.61%	4.42%	3.95%
Ten Groupings of 1765 Data Points											
1	-54.0	-15.0	181	0.56%	0.49%	2.16%	1.92%	5.90%	5.34%	10.68%	9.45%
2	-14.9	-7.3	172	0.36%	0.33%	0.96%	0.84%	3.89%	3.53%	7.20%	6.42%
3	-7.3	-1.4	177	0.31%	0.27%	1.49%	1.39%	3.30%	2.90%	7.29%	6.65%
4	-1.3	3.0	180	0.08%	0.05%	1.10%	1.01%	2.97%	2.62%	6.28%	5.75%
5	3.0	8.0	191	0.04%	0.02%	0.65%	0.56%	2.46%	2.21%	4.66%	4.14%
6	8.1	12.2	158	0.10%	0.08%	0.30%	0.17%	1.51%	1.27%	4.62%	4.13%
7	12.2	16.6	176	0.20%	0.18%	0.74%	0.65%	2.52%	2.27%	5.13%	4.70%
8	16.7	22.0	181	0.16%	0.14%	0.69%	0.62%	2.00%	1.73%	5.63%	5.21%
9	22.0	29.2	172	0.06%	0.05%	0.35%	0.26%	1.86%	1.59%	4.08%	3.51%
10	29.2	62.9	177	0.29%	0.28%	0.34%	0.27%	1.41%	1.18%	2.63%	2.19%

From 07.31.87 through 6.10.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

Seemingly every five years or so, one of my favorite financial journalists, Jason Zweig, who writes “The Intelligent Investor” columns for the *Wall Street Journal*, tackles the issue of investing vs. speculating, with his opinion being that the latter is often associated with “reckless risk.”

His latest missive was out this weekend, and since we publish *The Prudent SPECULATOR* newsletter, we figure that readers might have interest in our take on Investing vs. Speculating.

Believe it or not, in response to a Jason Zweig column on the subject back in 2016, ... <https://jasonzweig.com/lets-be-honest-are-you-an-investor-or-a-speculator/> ... your editor (and the late Al Frank) wrote the following, ...

The latest piece from one of my favorite journalists (Jason Zweig, who pens The Wall Street Journal’s Intelligent Investor column) discussed Investing versus Speculating, with the latter again somehow viewed negatively. Now, to be fair to Mr. Zweig, the father of value investing Ben Graham wrote in The Intelligent Investor: “An investment operation is one which, upon

thorough analysis, promises safety of principal and a satisfactory [or ‘adequate’] return. Operations not meeting these requirements are speculative.”

The key phrase therein is “safety of principal” as no stock can make such a promise, while as we illustrated above, even one of the safest investments, U.S. Treasuries, has hardly delivered a “satisfactory” return of late. Given that the title of our nearly 40-year-old publication includes the word “speculator,” I thought that sharing Al Frank’s view on the subject would be valuable. In the Introduction to his book, Al Frank’s New Prudent Speculator, the Zen Master of Money wrote the following:

Semantics is More than Just Wordplay

Right off, let us agree to a stipulated definition that all so-called investing in common stocks is a form of speculation. I believe it is important at the outset, throughout pages of this book, and indeed in our everyday thinking about the stock market, to be aware and admit that when we trade stocks or buy them for their long-term potential, we are speculators. This is in keeping with classical definitions of that word and its cognates.

Consider the following entries in the Random House College Dictionary (Revised Edition, 1980, page 1262):

Speculate 1. To engage in thought or reflection; meditate. 2. To indulge in conjectural thought. 3. To engage in any business transaction involving considerable risk for the chance of large gains.

Speculation 1. The contemplation or consideration of some subject. 2. A single instance or process of consideration. 3. A conclusion or opinion reached by such contemplation. 4. Conjectural consideration of a matter; conjecture or surmise. 5. Engagement in business transactions involving considerable risk for the chance of large gains.

Speculative 1. Pertaining to or of the nature of speculation, contemplation, conjecture, or abstract reasoning. . . . 4. Of the nature of or involving commercial or financial speculation.

Speculator 1. A person who is engaged in commercial or financial speculation.

I submit that when we trade stocks we undertake a “business transaction involving considerable risk for the chance of large gains.” Otherwise, we would put our money into Treasury bills. Furthermore, the whole process of systematic and prudent stock speculation involves thought, reflection, contemplation, conjecture, surmise, and abstract reasoning. Why then is the word “speculator” anathema to so many who find the word “investor” comfortable and satisfying? Because “invest” and “investment” carry connotations of gains and goods without great risks. Note how the same dictionary (page 702) defines these terms.

Invest 1. To put (money) to use, by purchase or expenditure, in something offering profitable returns, esp. interest or income. 2. To spend. 3. To use, give, or devote (time, talent, etc.) as to achieve something 4. To furnish with power, authority, rank, etc.

Investment 1. The investing of money or capital for profitable returns. 2. A particular instance or mode of investing money. 3. Money or capital invested. 4. A property or right in which a person invests. 5. A devoting, using, or giving of time, talent, emotional energy, etc., as to achieve something.

Nowhere in any of the definitions of “invest” or “investment” do the words chance, risk, or large gains occur. Investing is defined as both good and safe because it offers “profitable returns”; it offers “to achieve something.” Perhaps we can trace the distrust of terms like “speculate” to their roots, which include to see (e.g. spectacles) and to look out (visually and mentally contemplating the distance and thereby the future)? Perception and conjecture are notoriously deceiving. The impression is reinforced when we consider the comfortable connotation and psychic association with clothes—vest or vestment—that is the root of the word “investment.”

But there is no investment—let alone stock market transaction—that does not carry with it chance and risk, and few stocks are bought without the thought of gain—mostly “large gains.” Even allegedly safe “investments” carry several considerable risks. In early 1989 many “very safe” Triple A-rated bonds (e.g. RJR Nabisco) lost some 20 percent of their market price in a few days after the announcement of a proposed leveraged buyout. During 1994, 30-year U.S. Treasury bonds declined some 7.77 percent (including their initial high interest yields) in total return as their market values dropped when interest rates were pushed up by the Federal Reserve.

We know that common stocks can vary in price several percent on any given day, and over the course of a year some will more than double in market price while others will lose a great portion or even all of their previous market price. We also know that real estate is not immune from serious depreciation and loss, due to overbuilding, changes in neighborhoods, or economic downturns. Between 1990 and 1994, much of southern California real estate declined 20 percent or more in market price.

It irritates me so much to see advertising, couched in the most dignified words and euphemisms, encouraging “investing” in the most risky of financial instruments, such as commodities, limited partnerships, derivative or collectibles. After years of trying to get people to admit they were speculators, I have persuaded only a reluctant few and turned off many who did not want to think of themselves as speculators or what they did with stocks as speculating. Still, I will keep advocating this semantic honesty because it is so important to recognize that critical difference, which will help our outlook, thinking, and strategies.

“A speculator is a man who observes the future and acts before it occurs,” according to Bernard Baruch. While I like the stature of Baruch and love this quote, I’m not sure how we can observe the future before it occurs. But I do think we can anticipate many probable events and speculate on their likelihood, based upon historical precedents and current conditions.

Of course, we realize that we will not change the way nearly everybody views the word speculation, but we live in a world where sophisticated folks “invest” based on patterns on a

chart or stock-price momentum. Not sure that is much different than following a Reddit forum and trying to predict where the herd will stampede to next...which more than a few “professionals” and their “data scientists” incorporate into their process.

No matter how we choose to invest or the rationale behind our investments, none of us knows the future. We are all speculating that the asset will sooner or later provide a sufficient total return to justify our purchase!

Of course, we think our speculation can be done prudently...by buying and patiently harvesting a broadly diversified portfolio of what we believe to be undervalued stocks, usually of the dividend-paying variety. After all, shareholders own some fraction of future cash flows, so we would like to pay as little as possible, whether those cash flows are in the form of dividends or reinvested earnings, and we offer 25 attractively priced names for current consideration.

THE PRUDENT SPECULATOR

JUNE SWOON — 25 UNDERVALUED TPS STOCKS DOWN 3%+ THIS MONTH



June Swoon - Undervalued TPS Stocks Down 3%+ This Month

Symbol	Common Stock	June '21 TR %	YTD TR %	05.14.21 Price	Target Price	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
ABT	Abbott Laboratories	-5.8	1.2	\$109.91	\$131.22	Health Care Equip/Srvcs	25.4	5.2	nmf	17.9	20.3	3.9	nmf	1.6%	195,450
ALK	Alaska Air Group	-5.4	25.9	\$65.48	\$83.24	Transportation	nmf	3.0	9.9	-35.5	-8.1	-2.6	436%	0.0%	8,151
ALL	Allstate	-3.0	21.4	\$131.73	\$158.98	Insurance	7.6	nmf	1.9	15.2	nmf	nmf	nmf	2.5%	39,345
ANTM	Anthem Inc	-3.3	20.3	\$383.87	\$492.27	Health Care Equip/Srvcs	16.7	0.8	33.7	14.4	9.3	10.1	835%	1.2%	93,642
AXS	Axis Capital Holdings	-3.1	4.0	\$51.99	\$68.23	Insurance	61.9	nmf	1.0	3.4	nmf	nmf	nmf	3.2%	4,409
BK	Bank of NY Mellon	-3.2	20.5	\$50.41	\$59.86	Diversified Financials	12.9	nmf	2.2	8.6	nmf	nmf	nmf	2.5%	44,015
CAT	Caterpillar	-8.5	22.4	\$220.70	\$258.48	Capital Goods	30.0	2.8	13.5	22.3	16.3	4.2	293%	2.0%	120,886
CE	Celanese	-3.1	24.6	\$160.34	\$177.21	Materials	18.2	3.0	8.6	69.7	18.3	4.6	158%	1.7%	18,069
CMA	Comerica	-6.0	33.4	\$73.79	\$91.32	Banks	12.0	nmf	1.5	11.4	nmf	nmf	nmf	3.7%	10,276
DE	Deere & Co	-5.4	27.3	\$341.57	\$419.99	Capital Goods	22.2	2.7	10.0	34.0	11.7	5.7	315%	1.1%	106,428
FDX	FedEx	-5.9	14.3	\$296.09	\$358.80	Transportation	18.9	1.0	5.2	14.8	12.1	4.9	239%	0.9%	78,300
FITB	Fifth Third Bancorp	-3.7	48.2	\$40.57	\$45.07	Banks	13.8	nmf	1.8	9.7	nmf	nmf	nmf	2.7%	28,504
GT	Goodyear Tire & Rubbe	-5.4	71.9	\$18.75	\$21.98	Autos & Components	nmf	0.4	2.0	-18.8	19.3	17.5	233%	0.0%	5,229
KEY	KeyCorp	-4.8	36.0	\$21.94	\$26.22	Banks	12.5	nmf	1.7	11.0	nmf	nmf	nmf	3.4%	21,235
MDC	MDC Holdings	-6.9	21.5	\$53.93	\$74.39	Consumer Durables	8.8	0.9	1.7	21.7	7.6	-1.8	73%	3.0%	3,778
MOS	Mosaic Co	-4.1	50.9	\$34.59	\$39.73	Materials	23.4	1.4	1.6	11.4	10.6	3.9	48%	0.9%	13,127
MU	Micron Technology	-5.7	5.5	\$79.34	\$110.63	Semiconductors	21.7	3.8	2.3	8.2	9.0	-0.7	17%	0.0%	89,029
NEM	Newmont Corp	-3.6	19.5	\$70.31	\$81.01	Materials	23.6	4.8	2.8	11.4	10.5	6.0	28%	3.1%	56,354
NSC	Norfolk Southern	-3.3	15.1	\$271.49	\$302.41	Transportation	29.1	6.9	4.6	15.6	17.3	3.3	83%	1.5%	67,885
RCL	Royal Caribbean Cruise	-3.4	20.6	\$90.09	\$114.16	Consumer Services	nmf	105.2	2.7	-56.5	-14.3	-32.6	254%	0.0%	22,881
SNA	Snap-on	-6.2	41.2	\$238.88	\$267.22	Capital Goods	19.1	3.1	5.3	18.9	12.9	8.1	50%	2.1%	12,899
TFC	Truist Financial	-6.1	22.9	\$57.99	\$72.93	Banks	14.0	nmf	2.3	7.6	nmf	nmf	nmf	3.1%	77,853
TKR	Timken Co	-4.2	10.3	\$84.74	\$95.70	Capital Goods	19.4	1.8	14.8	15.9	12.1	6.8	344%	1.4%	6,416
WHR	Whirlpool	-4.7	26.8	\$225.93	\$281.17	Consumer Durables	9.9	0.7	nmf	37.4	7.3	14.8	nmf	2.5%	14,134
ZBH	Zimmer Biomet	-6.0	2.9	\$158.28	\$187.79	Health Care Equip/Srvcs	27.9	4.7	nmf	4.7	16.4	3.3	nmf	0.6%	32,890

As of 6.11.21. nmf-Not meaningful. ROCE - Return on Common Equity. TBV - Tangible book value. EV/EBITDA - Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield - Free Cash Flow Yield

But we resist the temptation to denigrate (too much anyway!) those playing the cryptocurrency, meme-stock or non-fungible-token (NFT) game. After all, could we not use the same “Greater Fool” rationale to justify that this painting was worth \$179 million when it sold at Christie’s in 2015 to an obviously sophisticated collector, er investor, er speculator? Sorry Mr. Picasso!



Stock Updates

Keeping 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*. Jason Clark, Chris Quigley and Zack Tart take a look at 5 of our companies that either had news out last week of sufficient interest to merit a Target Price review or are worthy of comment.

Shares of biotech concern **Biogen** (BIIB – \$396.64) soared on the announcement that the Food and Drug Administration (FDA) had approved its drug, Aduhelm (aducanumab), for the treatment of Alzheimer’s disease. The decision is significant as Aduhelm is the first novel therapy approved for Alzheimer’s disease since 2003. The therapy was approved using the FDA’s Accelerated Approval pathway, which was isolated to the examination of the reduction in amyloid beta plaques, not including the examination of the drug’s effects on cognitive decline more specifically. As such, the FDA is requiring Biogen to conduct a post-approval clinical trial to verify the drug’s clinical benefit, while there has been plenty of controversy around the approval process.

In its press release the FDA commented, “FDA has determined that there is substantial evidence that Aduhelm reduces amyloid beta plaques in the brain and that the reduction in these plaques is reasonably likely to predict important benefits to patients... We are well-aware of the attention surrounding this approval. We understand that Aduhelm has garnered the attention of the press, the Alzheimer’s patient community, our elected officials, and other interested stakeholders. With a treatment for a serious, life-threatening disease in the balance, it makes sense that so many people were following the outcome of this review. Further, the data included in the applicant’s submission were highly complex and left residual uncertainties regarding clinical benefit. There has been considerable public debate on whether Aduhelm should be approved. As is often the case when it comes to interpreting scientific data, the expert community has offered differing perspectives.”

Biogen CEO Michel Vounatsos commented on the approval, “When considering Aduhelm’s value proposition, it is important to note that this therapy was studied in early-stage patients. There are several aspects of treatment with Aduhelm that we believe will likely make it a treatment handled mainly by specialists in collaboration with primary care physicians. In determining the price, we engaged with stakeholders, including clinical experts, health economics, policymakers and payers on Aduhelm, and we remain true to Biogen’s pricing principles. With this consideration in mind, we have priced Aduhelm at WAC of approximately \$56,000 per year for an average patient of 74-kilogram at the full maintenance dose. We expect the cost during the first year to be lower due to the dose titration resulting in an average [wholesale acquisition cost] of approximately \$41,000 for an average patient. Importantly, we have committed to not increasing the price of Aduhelm for the next 4 years. One critical near-term priority for the launch will be securing payer coverage. The vast majority of Alzheimer’s patients in the U.S. are 65 or older. And as a result, most of our patients are expected to be covered by Medicare, either through fee-for-service or Medicare Advantage. For Medicare fee-for-service, coverage is automatically presumed with FDA approval. We expect most Medical Advantage plans to define their medical policies within the first several months after launch. Biogen is committed to an equitable launch with a goal of maximizing access for all patients with early-stage Alzheimer’s disease, including the underserved population which can be disproportionately impacted. We are pursuing value-based contracts with payers such as Cigna to help streamline patient access to treatment. We are working with providers groups such as CVS as well as the National Association of Free and Charitable Clinics, which have neighborhood level reach with the goal of engaging underserved people in their local communities to provide them with education about mild cognitive impairment and to enable access to cognitive screening. And we are working to finalize a multiyear agreement with the Veteran Health Administration in order to support access for veterans.”

Not surprisingly, given the 38% rally last week and the question marks about the efficacy and cost of the drug, not to mention the fact that three FDA officials resigned last week over the decision to approve, we have had significant internal debate about continuing to hold our positions, most of which were relatively small percentage-wise, despite the share price spike. At the end of the day, we opted to trim a portion of our stake north of \$422 on Thursday for client accounts where the position was in the 1.5% or greater range, but we chose to retain the balance of our holdings, including all of those in our newsletter portfolios, for an updated \$468 Target Price

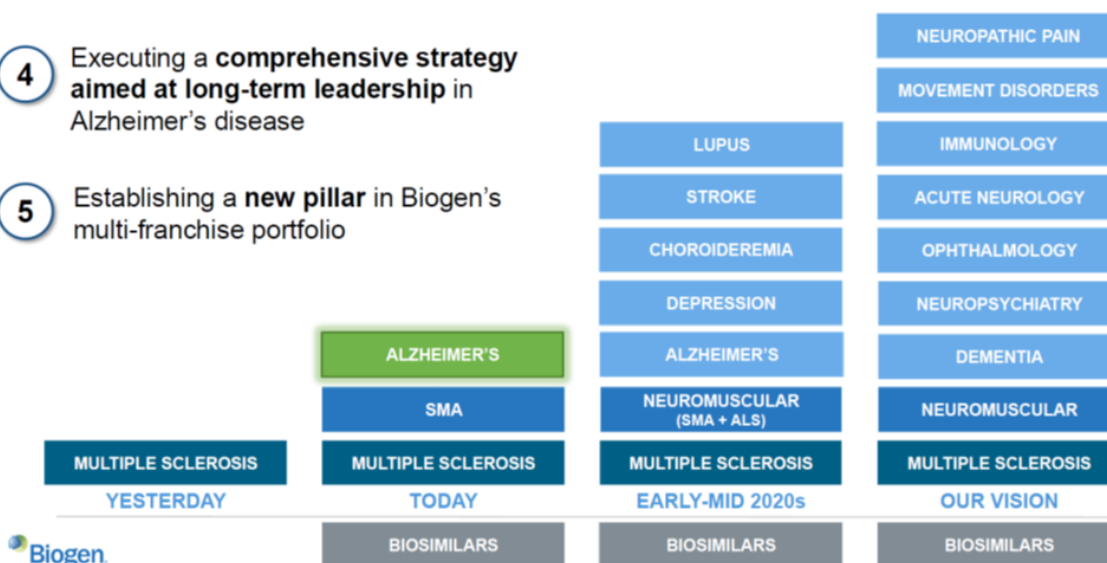
Our warning last November that Biogen investors must be braced for volatility remains the same with many market-moving headlines still to come, but the Alzheimer's opportunity is enormous, given the number of folks afflicted with the disease, the aging of the population and the desperation families have for any treatment that might bring some relief. Meanwhile, looming pressure from generics in the coming years, or sooner given the court victory last year for Mylan Inc. (now joined with Pfizer's Upjohn) related to Biogen's blockbuster Multiple Sclerosis drug Tecfidera, and potential competition from Novartis for its spinal muscular atrophy treatment Spinraza, raise the importance of the company's neurological effort.



Continuing to build a multi-franchise portfolio

4 Executing a **comprehensive strategy** aimed at long-term leadership in Alzheimer's disease

5 Establishing a **new pillar** in Biogen's multi-franchise portfolio



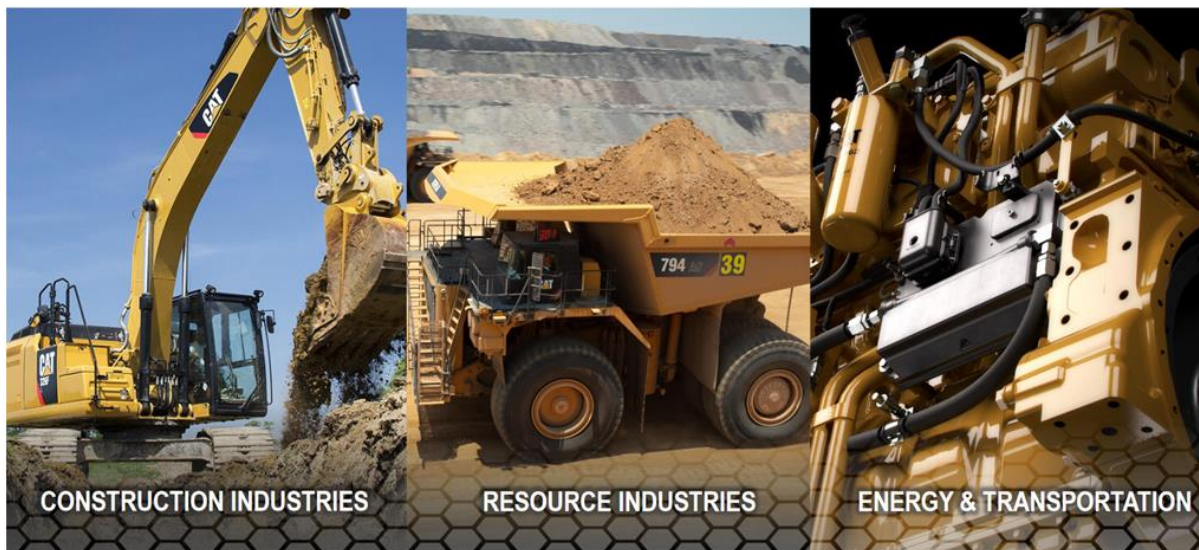
We had viewed Biogen as a near-term earnings-challenged value-priced biotech with a solid pipeline of therapeutics and a potentially very lucrative Alzheimer's lottery ticket. Now that the company is seemingly about to cash in that ticket, we would think investors will revalue the entire company higher, hence the big jump in our Target Price. But, we are mindful that the stock already endured an Alzheimer's-related round trip not that long ago, so we will be keeping a watchful eye on our BIIB shares.

Heavy equipment giant **Caterpillar** (CAT – \$220.70) raised its quarterly dividend last week from \$1.03 per share to \$1.11 per share, which prompted a big selloff in the stock. Well, not really, as that news was positive, but CAT shares had a tough week as talks over the Biden

Administration's massive infrastructure overhaul bill ebbed and flowed, with little likelihood of a quick resolution. Of course, the setback was disappointing as President Biden headed abroad, presumably tabling the topic for the time being, but we think it'll eventually find support in a meaningful form. While there's plenty of political bickering over the what and the how, the general idea that the country's infrastructure needs improvement is broadly supported.

THE PRUDENT SPECULATOR

CAT – DIVERSIFIED INDUSTRIAL GIANT



OUR SOLUTIONS HELP OUR CUSTOMERS BUILD A BETTER WORLD.

CATERPILLAR | 5

Construction machinery is probably what CAT is best known for, but the company also produces plenty of mining equipment and sells a full array of products abroad, lowering the U.S.-specific risk. We think the diversification is important to CAT's resiliency and note that analysts expect earnings to grow from \$6.56 in 2020 to nearly \$14 in 2023. Although the valuation isn't dirt-cheap, and we captured some of our CAT winnings not too long ago, it's not expensive either and the growth potential is substantial. The yield is now 2.0% and our Target Price for CAT now stands at \$258.

Next-day cargo specialist **FedEx** (FDX – \$296.09) shares have been under some pressure of late, due in part to rival UPS offering cautious guidance on its domestic margins, suggesting that the U.S. number may be in the 10.5% to 12% range in 2023, versus analyst expectations of 13%. Interestingly, UPS indicated that earnings per share in 2023 might pencil out to \$13 per share, better than the \$12 or so that had been expected by Wall Street, but evidently so-called

“whisper” estimates were even higher. Still, given that strong demand growth was forecast, we hardly see cause for concern for the package delivery business.



Positioning for Long-Term Growth

- **E-commerce, including B2B e-commerce, is increasing demand for our services**
- **FedEx Express integrating TNT Express and continuing to transform and optimize the FedEx Express international business while modernizing its aircraft fleet and major sort facilities**
- **FedEx Ground gaining profitable revenue share**
- **FedEx Freight focused on improving revenue quality and operating margins**
- **FedEx service levels and culture remains strong**
- **The U.S. domestic parcel market is expected to reach 101 million packages per day by calendar year 2022, with e-commerce contributing 86% of total U.S. market growth**

Certainly, it is hard to complain about FedEx as the stock is still up 14% this year on top of a 74% gain last year as the company continues to benefit from huge online shopping volumes and the return of business parcels. We think FDX shares continue to trade at a reasonable valuation and analysts expect EPS to grow above \$22 for fiscal 2023, up from \$9.50 in fiscal 2020 (and \$15.52 in 2019). We appreciate that FDX has been using its free cash flow to grow the business, manage its debt load in its infrastructure-intensive business and make fleet changes. Our Target Price for FDX is \$359.

Hard disk storage manufacturer **Seagate Technology** (STX – \$96.77) boosted fiscal Q4 2021 guidance last week, raising the revenue target from \$2.85 billion to \$2.95 billion and the adjusted EPS target from \$1.60 to \$1.85. The announcement was in advance of CFO Gianluca Romano’s comments at the Bank of America 2021 Global Technology Conference, where Mr. Romano said that the company’s expectations for strong cloud and enterprise demand was panning out, and STX is benefitting from the extra capacity that had been added over the last few years.

Mr. Romano explained, “Because of this new demand, now we see a strong acceleration. We don’t know if this will last for a long time or not, but it’s important for us to be in a situation where we can use that capacity and much stronger than what we were expecting. We are now changing our CapEx plan; so we are still aligning our core business, mass capacity between supply and demand as we were thinking before. And if the cryptocurrency demands stay with us for long, growth is all upside, this is all an opportunity that, of course, we want to take benefit of in the next few quarters or longer if it will stay longer.”

STX has benefitted from the growing interest in cryptocurrency, but we will still consider the exposure a bonus in our Target Price work, and we continue to like Seagate for its wide array of applications for hard disk and hybrid drives. Analysts expect STX to grow EPS from the \$5 range in 2020 to more than \$7 by 2022, which results in a 2022 P/E under 18, while the company continues to generate free cash flow and buy back shares. We took some STX dollars off the table earlier this year for accounts with larger positions sizes and are still comfortable with our current full position sizes of STX in our broadly diversified portfolios. Our upgraded Target Price for STX is \$109.

Goodyear Tire and Rubber’s (GT – \$18.75) purchase of Cooper Tire closed last Monday. Enthusiasm for the stock cooled a bit last week as shares sank more than 12% through Thursday before rebounding 3.8% on Friday, though we suspect some of the selling a result of former Cooper shareholders unwinding the .907 shares of GT they received as a condition of the deal. We remind that Goodyear paid cash for a bit more than 75% of the transaction (which it financed with debt) and used stock for the remainder. Management states that the combination is expected to be immediately accretive to earnings, although the two firm’s existing strategies, promotions, product launches and manufacturing footprints will remain mostly unchanged for the remainder of 2021.

Goodyear CEO Richard J Kramer commented, “We are excited to officially bring Goodyear and Cooper together and unite our shared focus on customers, innovation and high-quality products and solutions. This combination strengthens Goodyear’s ability to serve more consumers globally and provides increased scale to support greater investments in new mobility and fleet solutions. The acquisition further strengthens Goodyear’s leading position in the US, while significantly growing its position in other North American markets.”



Creating a Stronger U.S.-Based Leader in the Global Tire Industry

More Products and Choices Across the Value Spectrum



Strengthens Position in the Global Tire Industry

 Supports leading position in U.S. and grows position in other North American markets	 Nearly doubles Goodyear's presence in China	 Delivers a more complete offering to aligned distributors and retailers	 Increases scale to support investments in new mobility and fleet solutions
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Significant Immediate and Long-Term Financial Benefits

\$165M in cost synergies Expected within two years post-closing	\$450M+ NPV in tax benefits Reduced cash taxes creates additional free cash flow	Immediately EPS accretive; improves credit metrics Enhances ability to de-lever going forward	Opportunity to create additional value Leveraging combined manufacturing and distribution
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The transaction strengthens GT’s balance sheet despite borrowing roughly \$1.9 billion to complete the deal and the addition of Cooper’s mid-tier offering meshes well with the OEM and premium products from Goodyear. We are mindful that rising energy prices over the past eight months or so will likely increase input costs for both companies but ought to be mitigated somewhat by price increases implemented earlier this year. We continue to like the competitive dynamics offered by the combination as we have long-appreciated Cooper’s operating capability and conservative fiscal posture. Our Target Price for GT currently resides at \$23.

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