

Market Commentary Monday, September 13, 2021

September 12, 2021

EXECUTIVE SUMMARY

Newsletter Trades – 7 Buys for 4 Accounts

Week in Review – September Has Not Started Out Well

Perspective – Downturns are Normal

Getting the Timing Right – Only Problem with Market Timing

9/11 – Buckingham in Manhattan 20 Years Ago

Econ News – Relatively Favorable Jobs Numbers

Valuations – Still Very Reasonable, Especially from an Income Perspective

Sentiment – Investors Have Become Less Bullish

25 “Correction” Stocks – Undervalued TPS Favorites Off 10%+ Since 6.8.21

Stock News – Updates on BIIB, DAL, ALK, DLR & KR

Market Review

As indicated in the September edition of *The Prudent Speculator*, we bought the following on Tuesday, September 7:

TPS Portfolio

1265 **Nordstrom** (JWN – \$26.52) at \$27.68

Buckingham Portfolio

146 **EOG Resources** (EOG – \$67.14) at \$68.162

We also added the following to our hypothetical portfolios:

PruFolio

52 **Anthem Inc.** (ANTM – \$357.51) at \$379.70

194 **Mosaic** (MOS – \$31.78) at \$31.85

Millennium Portfolio

203 **Omnicom** (OMC – \$71.67) at \$73.72

168 **Juniper Networks** (JNPR – \$27.83) at \$28.90

155 **Physicians Realty** (DOC – \$18.26) at \$18.84

No doubt, the timing of those purchases could have been better as the equity markets labored through an ugly holiday-shortened week. Indeed, while the capitalization-weighted indexes did not fare a whole lot better, the average stock in the Russell 3000 index declined 2.70%.

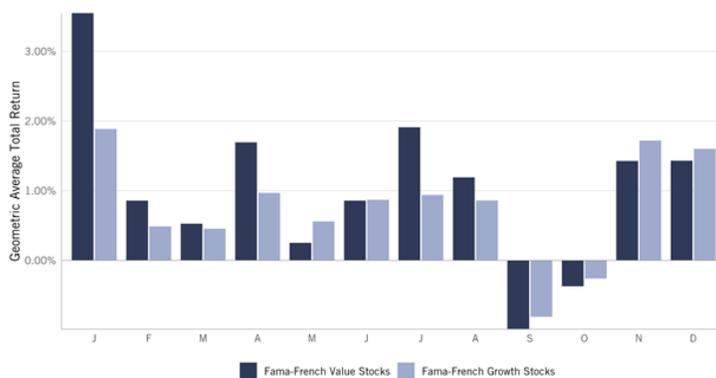
Certainly, with the 20th Anniversary of the 9/11 Terrorist Attacks on Saturday, it was a somber period, especially as strategists at several prominent Wall Street firms suggested that equities may be in for tough sledding as September historically has not been the greatest of months.

THE PRUDENT SPECULATOR

SEPTEMBER HISTORICALLY THE WORST MONTH OF THE YEAR



While the losses have been relatively tame over the last nine decades, and the period has been modestly positive on average for our benchmark Russell 3000 Value index over the past 25 years, September is one of only two months, October the other, where returns on stocks have been negative dating back to 1927.



From 12.31.27 through 12.31.20. Geometric average. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

| | Last 25 Years | | |
|---------|---------------|--------------------|---------------------|
| | S&P 500 | Russell 3000 Value | Russell 3000 Growth |
| Average | -0.12 | 0.15 | -0.32 |
| 2020 | -3.80 | -2.58 | -4.57 |
| 2019 | 1.87 | 3.67 | -0.04 |
| 2018 | 0.57 | 0.00 | 0.33 |
| 2017 | 2.06 | 3.26 | 1.62 |
| 2016 | 0.02 | -0.13 | 0.45 |
| 2015 | -2.47 | -3.05 | -2.78 |
| 2014 | -1.40 | -2.43 | -1.75 |
| 2013 | 3.14 | 2.76 | 4.66 |
| 2012 | 2.58 | 3.20 | 2.04 |
| 2011 | -7.03 | -7.83 | -7.70 |
| 2010 | 8.92 | 7.99 | 10.92 |
| 2009 | 3.73 | 3.95 | 4.43 |
| 2008 | -8.91 | -7.13 | -11.56 |
| 2007 | 3.74 | 3.19 | 4.08 |
| 2006 | 2.58 | 1.90 | 2.57 |
| 2005 | 0.81 | 1.26 | 0.49 |
| 2004 | 1.08 | 1.75 | 1.31 |
| 2003 | -1.06 | -0.99 | -1.18 |
| 2002 | -10.87 | -10.84 | -10.18 |
| 2001 | -8.08 | -7.32 | -10.40 |
| 2000 | -5.28 | 0.82 | -9.16 |
| 1999 | -2.74 | -3.39 | -1.83 |
| 1998 | 6.41 | 5.73 | 7.87 |
| 1997 | 5.48 | 6.10 | 5.23 |
| 1996 | 5.63 | 3.84 | 7.06 |

% Total Return August 31 - September 30. Source Kovitz using data from Bloomberg

Of course, trips south are hardly unusual, so we are always braced for downside volatility as returns in the equity market are not consistent. Indeed, in order to receive terrific long-term gains, stock investors have had to endure some significant losses along the way,...



Selloffs, downturns, pullbacks, corrections and even Bear Markets are events that equity investors always have had to endure on their way to the best long-term performance of any of the financial asset classes.

| Advancing Markets | | | | | | |
|-------------------|--------------|----------------|-------|----------------------|------------|----------|
| Minimum Rise % | Average Gain | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
| 20.0% | 112.9% | 990 | 27 | 3.4 | 3/23/2020 | 9/2/2021 |
| 17.5% | 67.9% | 579 | 39 | 2.3 | 3/23/2020 | 9/2/2021 |
| 15.0% | 66.5% | 563 | 45 | 2.0 | 3/23/2020 | 9/2/2021 |
| 12.5% | 44.9% | 338 | 72 | 1.3 | 3/23/2020 | 9/2/2021 |
| 10.0% | 35.3% | 248 | 98 | 0.9 | 3/23/2020 | 9/2/2021 |
| 7.5% | 23.8% | 149 | 157 | 0.6 | 9/23/2020 | 9/2/2021 |
| 5.0% | 14.8% | 73 | 306 | 0.3 | 10/30/2020 | 9/2/2021 |

| Declining Markets | | | | | | |
|-------------------|--------------|----------------|-------|----------------------|------------|------------|
| Minimum Decline % | Average Loss | Average # Days | Count | Frequency (in Years) | Last Start | Last End |
| -20.0% | -35.4% | 286 | 26 | 3.5 | 2/19/2020 | 3/23/2020 |
| -17.5% | -30.4% | 217 | 38 | 2.4 | 2/19/2020 | 3/23/2020 |
| -15.0% | -28.4% | 189 | 44 | 2.1 | 2/19/2020 | 3/23/2020 |
| -12.5% | -22.8% | 138 | 71 | 1.3 | 2/19/2020 | 3/23/2020 |
| -10.0% | -19.6% | 102 | 97 | 0.9 | 2/19/2020 | 3/23/2020 |
| -7.5% | -15.5% | 65 | 156 | 0.6 | 9/2/2020 | 9/23/2020 |
| -5.0% | -10.9% | 36 | 305 | 0.3 | 10/12/2020 | 10/30/2020 |

From 02.20.28 through 9.2.21. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

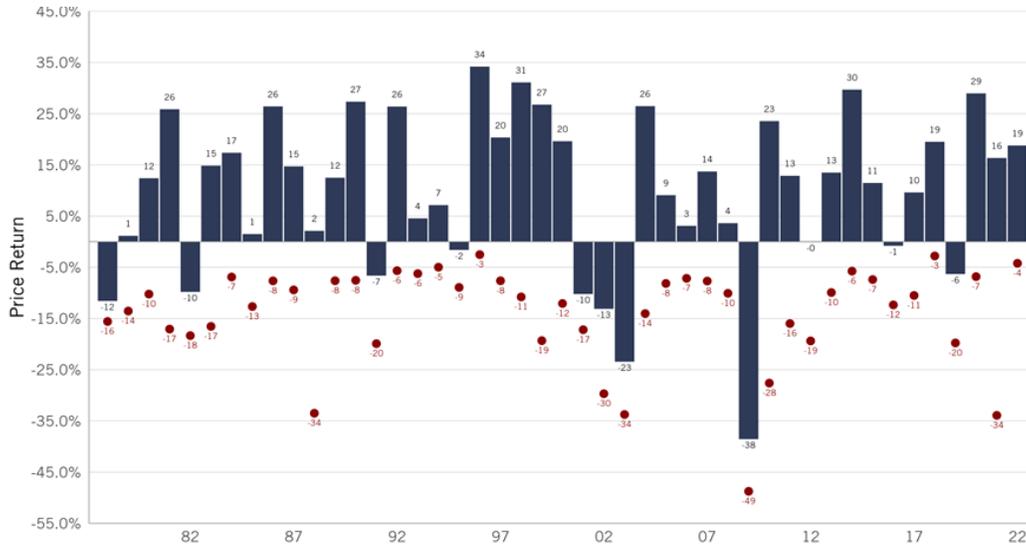
| | Annualized Return | Standard Deviation |
|----------------------------|-------------------|--------------------|
| Value Stocks | 13.3% | 26.0% |
| Growth Stocks | 10.0% | 21.4% |
| Dividend Paying Stocks | 10.7% | 18.1% |
| Non-Dividend Paying Stocks | 9.3% | 29.3% |
| Long-Term Corporate Bonds | 6.1% | 7.6% |
| Long-Term Gov't Bonds | 5.5% | 8.6% |
| Intermediate Gov't Bonds | 5.1% | 4.3% |
| Treasury Bills | 3.3% | 0.9% |
| Inflation | 2.9% | 1.8% |

From 06.30.27 through 06.30.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBILL Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

...with no year immune to some sort of downturn,...



While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 27 of the 45 years, including a 34% one (on a closing basis) in 2020.



From 12.31.76 through 09.10.21. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

...and the latest setback very mild thus far. After all, losses from the highs for most indexes have not yet eclipsed 5%, a drop that the S&P 500 has exceeded three times per year on average without an intervening rise of 5% just since the end of the Financial Crisis in March 2009.


S&P 500 Moves (on a Closing Basis) of 5% Without a Comparable Move in the Other Direction Since 03.09.09

| | | | | | | | |
|---------------------|------------|---------------|------|---------------------|------------|---------------|------|
| 3/26/2009 | 3/30/2009 | -5.44% | BEAR | 3/9/2009 | 3/26/2009 | 23.11% | BULL |
| 6/12/2009 | 7/10/2009 | -7.09% | BEAR | 3/30/2009 | 6/12/2009 | 20.15% | BULL |
| 10/19/2009 | 10/30/2009 | -5.62% | BEAR | 7/10/2009 | 10/19/2009 | 24.89% | BULL |
| 1/19/2010 | 2/8/2010 | -8.13% | BEAR | 10/30/2009 | 1/19/2010 | 11.01% | BULL |
| 4/23/2010 | 5/7/2010 | -8.74% | BEAR | 2/8/2010 | 4/23/2010 | 15.19% | BULL |
| 5/12/2010 | 6/7/2010 | -10.34% | BEAR | 5/7/2010 | 5/12/2010 | 5.47% | BULL |
| 6/18/2010 | 7/2/2010 | -8.49% | BEAR | 6/7/2010 | 6/18/2010 | 6.38% | BULL |
| 8/9/2010 | 8/26/2010 | -7.14% | BEAR | 7/2/2010 | 8/9/2010 | 10.29% | BULL |
| 2/18/2011 | 3/16/2011 | -6.41% | BEAR | 8/26/2010 | 2/18/2011 | 28.25% | BULL |
| 4/29/2011 | 6/15/2011 | -7.20% | BEAR | 3/16/2011 | 4/29/2011 | 8.49% | BULL |
| 7/7/2011 | 8/8/2011 | -17.27% | BEAR | 6/15/2011 | 7/7/2011 | 6.94% | BULL |
| 8/15/2011 | 8/19/2011 | -6.72% | BEAR | 8/8/2011 | 8/15/2011 | 7.60% | BULL |
| 8/31/2011 | 9/9/2011 | -5.30% | BEAR | 8/19/2011 | 8/31/2011 | 8.49% | BULL |
| 9/16/2011 | 10/3/2011 | -9.60% | BEAR | 9/9/2011 | 9/16/2011 | 5.35% | BULL |
| 10/28/2011 | 11/25/2011 | -9.84% | BEAR | 10/3/2011 | 10/28/2011 | 16.91% | BULL |
| 4/2/2012 | 6/1/2012 | -9.94% | BEAR | 11/25/2011 | 4/2/2012 | 22.47% | BULL |
| 9/14/2012 | 11/15/2012 | -7.67% | BEAR | 6/1/2012 | 9/14/2012 | 14.69% | BULL |
| 5/21/2013 | 6/24/2013 | -5.76% | BEAR | 11/15/2012 | 5/21/2013 | 23.34% | BULL |
| 1/15/2014 | 2/3/2014 | -5.76% | BEAR | 6/24/2013 | 1/15/2014 | 17.50% | BULL |
| 9/18/2014 | 10/15/2014 | -7.40% | BEAR | 2/3/2014 | 9/18/2014 | 15.47% | BULL |
| 5/21/2015 | 8/25/2015 | -12.35% | BEAR | 10/15/2014 | 3/2/2015 | 13.69% | BULL |
| 9/16/2015 | 9/28/2015 | -5.69% | BEAR | 8/25/2015 | 9/16/2015 | 6.84% | BULL |
| 11/3/2015 | 2/11/2016 | -13.31% | BEAR | 9/28/2015 | 11/3/2015 | 12.12% | BULL |
| 6/23/2016 | 6/27/2016 | -5.34% | BEAR | 2/11/2016 | 6/23/2016 | 5.64% | BULL |
| 1/26/2018 | 2/8/2018 | -10.16% | BEAR | 6/27/2016 | 1/26/2018 | 43.60% | BULL |
| 3/9/2018 | 4/2/2018 | -7.35% | BEAR | 2/8/2018 | 3/9/2018 | 7.96% | BULL |
| 9/20/2018 | 11/23/2018 | -10.17% | BEAR | 4/2/2018 | 9/20/2018 | 13.55% | BULL |
| 12/3/2018 | 12/24/2018 | -15.74% | BEAR | 11/23/2018 | 12/3/2018 | 5.99% | BULL |
| 4/30/2019 | 6/3/2019 | -6.84% | BEAR | 12/24/2018 | 4/30/2019 | 25.30% | BULL |
| 7/26/2019 | 8/14/2019 | -6.12% | BEAR | 6/3/2019 | 7/26/2019 | 10.25% | BULL |
| 2/19/2020 | 3/12/2020 | -26.74% | BEAR | 8/14/2019 | 2/19/2020 | 16.11% | BULL |
| 3/13/2020 | 3/23/2020 | -17.47% | BEAR | 3/12/2020 | 3/13/2020 | 9.29% | BULL |
| 3/26/2020 | 4/1/2020 | -6.07% | BEAR | 3/23/2020 | 3/26/2020 | 17.55% | BULL |
| 6/8/2020 | 6/11/2020 | -7.12% | BEAR | 4/1/2020 | 6/8/2020 | 30.84% | BULL |
| 9/2/2020 | 9/23/2020 | -9.60% | BEAR | 6/11/2020 | 9/2/2020 | 19.28% | BULL |
| 10/12/2020 | 10/30/2020 | -7.48% | BEAR | 9/23/2020 | 10/12/2020 | 9.18% | BULL |
| | | | | 10/30/2020 | 9/2/2021 | 38.75% | BULL |
| Average Drop | | -8.10% | | Average Gain | | 15.62% | |

SOURCE: Kovitz using data from Bloomberg

While the traumatic five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is likely still fresh in the mind of most investors, we suspect that many have forgotten the numerous other downturns endured by the equity markets. Believe it or not, just since the S&P 500 bottomed at 676.53 on March 9, 2009, there have been 36 setbacks of 5% or more without a comparable move in the other direction (three per year on average), yet the popular index today stands at 4458.58.

Of course, while there is no guarantee that the past is prologue, every selloff thus far, including the awfulness at the height of the pandemic in March 2020, has been overcome in the fullness of time,...



COVID-19, geopolitics, higher interest rates and increasing inflation are some of the bogeymen now spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards for those who stick with stocks through thick and thin.

"Supposing a tree fell down, Pooh, when we were underneath it?"

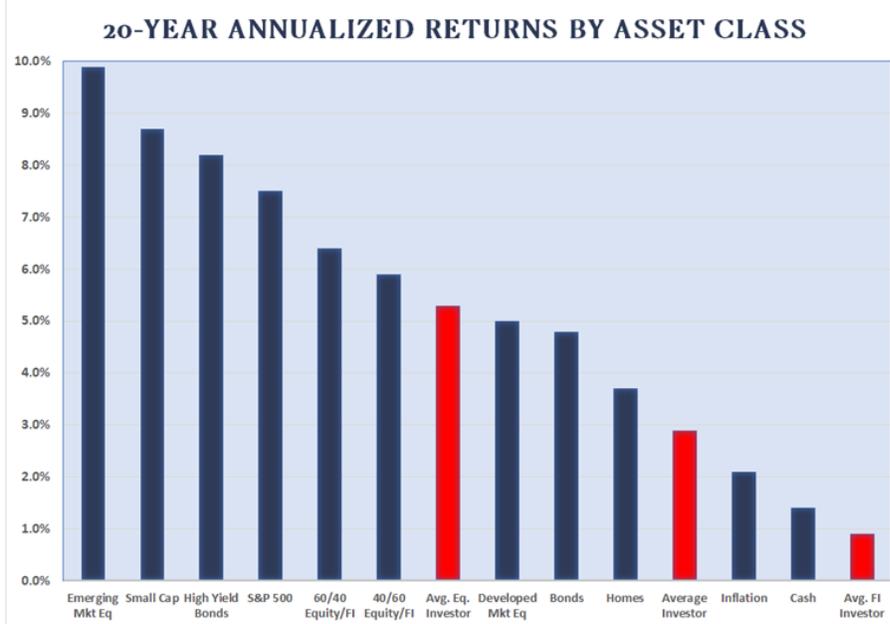
"Supposing it didn't," said Pooh.

After careful thought, Piglet was comforted by this.

| Event | Reaction Dates | | S&P | | Event Gain/Loss | 12 Months Later | 36 Months Later | 60 Months Later | Event End thru Present | |
|--|----------------|------------|-------------|-----------|------------------|-----------------|-----------------|-----------------|------------------------|--------------|
| | Start | End | Start Value | End Value | | | | | | |
| Pearl Harbor | 12/6/1941 | 12/10/1941 | 9.32 | 8.68 | -7% | 8% | 51% | 76% | 51266% | |
| Truman Upset Victory | 11/13/1948 | 11/10/1948 | 16.70 | 15.00 | -10% | 8% | 52% | 62% | 29624% | |
| Korean War | 6/23/1950 | 7/13/1950 | 19.14 | 16.69 | -13% | 32% | 45% | 153% | 26614% | |
| Eisenhower Heart Attack | 9/23/1955 | 9/26/1955 | 45.63 | 42.61 | -7% | 8% | 17% | 25% | 10364% | |
| Suez Canal Crisis | 10/30/1956 | 10/31/1956 | 46.37 | 45.58 | -2% | -10% | 26% | 51% | 9682% | |
| Sputnik | 10/3/1957 | 10/22/1957 | 43.14 | 38.98 | -10% | 31% | 37% | 41% | 11338% | |
| Cuban Missile Crisis | 8/23/1962 | 10/23/1962 | 59.70 | 53.49 | -10% | 36% | 72% | 78% | 8235% | |
| JFK Assassination | 11/21/1963 | 11/22/1963 | 71.62 | 69.61 | -3% | 24% | 14% | 53% | 6305% | |
| MLK Assassination | 4/1/1968 | 4/5/1968 | 93.47 | 93.29 | 0% | 8% | 8% | 16% | 4679% | |
| Kent State Shootings | 5/4/1970 | 5/14/1970 | 79.00 | 75.44 | -5% | 35% | 40% | 22% | 5810% | |
| Arab Oil Embargo | 10/18/1973 | 12/5/1973 | 110.01 | 92.16 | -16% | -28% | 12% | 6% | 4738% | |
| Nixon Resigns | 8/9/1974 | 8/29/1974 | 80.86 | 69.99 | -13% | 24% | 38% | 56% | 6270% | |
| U.S.S.R. in Afghanistan | 12/24/1979 | 1/3/1980 | 107.66 | 105.22 | -2% | 30% | 31% | 56% | 4137% | |
| Hunt Silver Crisis | 2/13/1980 | 3/27/1980 | 118.44 | 98.22 | -17% | 37% | 55% | 83% | 4439% | |
| Falkland Islands War | 4/1/1982 | 5/7/1982 | 113.79 | 119.47 | 5% | 39% | 51% | 147% | 3632% | |
| U.S. Invades Grenada | 10/24/1983 | 11/7/1983 | 165.99 | 161.91 | -2% | 4% | 52% | 69% | 2654% | |
| U.S. Bombs Libya | 4/15/1986 | 4/21/1986 | 237.73 | 244.74 | 3% | 20% | 27% | 57% | 1722% | |
| Crash of '87 | 10/2/1987 | 10/19/1987 | 328.07 | 224.84 | -31% | 23% | 39% | 85% | 1883% | |
| Gulf War Ultimatum | 12/24/1990 | 1/16/1991 | 329.90 | 316.17 | -4% | 32% | 50% | 92% | 1310% | |
| Gorbachev Coup | 8/16/1991 | 8/19/1991 | 385.58 | 376.47 | -2% | 11% | 23% | 77% | 1084% | |
| ERM U.K. Currency Crisis | 9/14/1992 | 10/16/1992 | 425.27 | 411.73 | -3% | 14% | 42% | 132% | 983% | |
| World Trade Center Bombing | 2/26/1993 | 2/27/1993 | 443.38 | 443.38 | 0% | 5% | 46% | 137% | 906% | |
| Russia Mexico Orange County | 10/11/1994 | 12/20/1994 | 465.79 | 457.10 | -2% | 33% | 107% | 210% | 875% | |
| Oklahoma City Bombing | 4/19/1995 | 4/20/1995 | 504.92 | 505.29 | 0% | 28% | 122% | 184% | 782% | |
| Asian Stock Market Crisis | 10/7/1997 | 10/27/1997 | 983.12 | 876.99 | -11% | 21% | 57% | 2% | 408% | |
| Russian LTCM Crisis | 8/18/1998 | 10/8/1998 | 1,101.20 | 959.44 | -13% | 39% | 11% | 8% | 365% | |
| Clinton Impeachment | 12/19/1998 | 2/12/1999 | 1,188.03 | 1,230.13 | 4% | 13% | -10% | -6% | 262% | |
| USS Cole Yemen Bombings | 10/11/2000 | 10/18/2000 | 1,364.59 | 1,342.13 | -2% | -20% | -23% | -12% | 232% | |
| September 11 Attacks | 9/10/2001 | 9/21/2001 | 1,092.54 | 965.80 | -12% | -12% | 17% | 36% | 362% | |
| Iraq War | 3/19/2003 | 5/1/2003 | 874.02 | 916.30 | 5% | 21% | 42% | 54% | 387% | |
| Madrid Terrorist Attacks | 3/10/2004 | 3/24/2004 | 1,123.89 | 1,091.33 | -3% | 7% | 32% | -26% | 309% | |
| London Train Bombing | 7/6/2005 | 7/7/2005 | 1,194.94 | 1,197.87 | 0% | 6% | 5% | -11% | 272% | |
| 2008 Market Crash | 9/15/2008 | 3/9/2009 | 1,192.70 | 676.53 | -43% | 69% | 103% | 178% | 559% | |
| Price Changes Only - Does Not Include Dividends | | | | | Averages: | -7% | 18% | 39% | 66% | 6136% |

As of 9.10.21. Source: Kavitz using Bloomberg and Ned Davis Research Events & Reaction Dates

...yet so many still try to time their moves into and out of stocks, generally to the detriment of their long-term investment success.



From 2001 to 2020. Emerging Mkt Eq: MSCI EM Index; Small Cap: Russell 2000 Index; High Yield Bonds: Bloomberg Barclays Global HY Index; S&P 500: Standard & Poor's 500 Index; 60/40 Equity/FI: Annually Rebalanced 60% S&P 500 & 40% Bloomberg Barclays U.S. Aggregate Bond Index; 40/60 Equity/FI: Annually Rebalanced 40% S&P 500 & 60% Bloomberg Barclays U.S. Aggregate Bond Index; Avg. Eq. Investor: DALBAR analysis of average equity fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior; Developed Mkt Eq: MSCI EAFE Index; Bonds: Bloomberg Barclays U.S. Aggregate Bond Index; Homes: Median Sale Price of Existing Single-Family Homes; Average Investor: DALBAR analysis of average asset allocation fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior; Inflation: CPI; Cash: Bloomberg Barclays 1-3m Treasury; Avg. FI Investor: DALBAR analysis of average bond fund aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.

Alas, per findings from research firm DALBAR, emotional decision-making and lousy market timing have cost folks dearly, with the average equity fund investor trailing the S&P 500 by 220 basis points per annum over the last 20 years, and the comparisons even worse for asset allocation and fixed income investors.

That does not mean that it is easy to keep emotions in check,...



Given that he has had major health issues, it was nice to see Peter Tuchman's smiling face as the Dow Jones Industrial Average closed above 35,000 for the first time on 7.23.21.

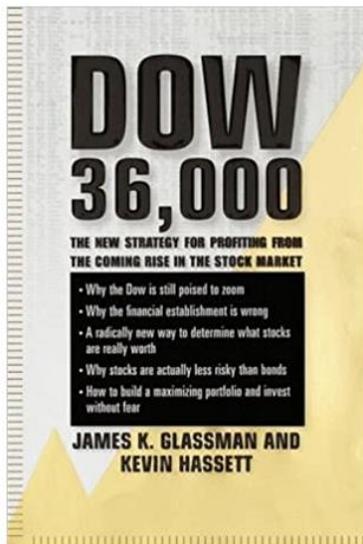


Of course, Wall Street's most photographed trader (per *Marketwatch*) may be no better visual aid to remind folks that investing is an emotional roller coaster. For example, in 2019, Mr. Tuchman was positively giddy about the Dow breaking through 27,000 in July, yet a few weeks later he had seemingly pulled all his hair out as stocks plunged after an escalation in the trade skirmish.

...as even the most optimistic of folks can lose their nerve,...



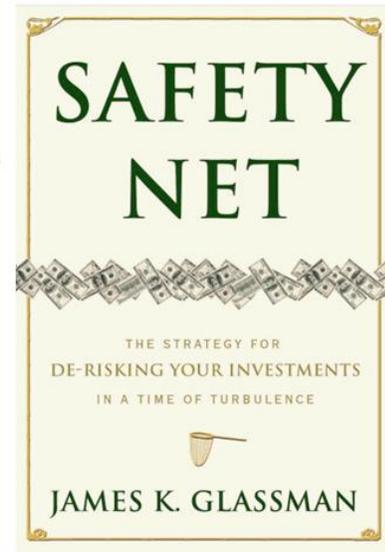
There is no assurance that the Dow Jones Industrial Average will continue its upward trajectory, but James K. Glassman's famous Dow 36,000 projection is just 4.0% away. Alas, he advised loading up on stocks at Dow 10,000 in 1999 and de-risking portfolios at Dow 12,000 in 2011...the only problem with market timing is getting the timing right.



September 20, 1999

“In theory, historical averages show that stocks are a good buy if you can hang on through the miserable periods. But most investors find that excruciatingly difficult to do—a fact that I never fully appreciated in my 30 years of writing about investing.”

— James K. Glassman,
February 24, 2011



February 22, 2011

...but our faith in U.S. stocks for those who share our long-term time horizon will never be shaken. To be sure, anything can happen in the near term and your Editor has seen a lot in his 34 years with Al Frank/*The Prudent Speculator*/Kovitz, but here is what I wrote two decades ago in the aftermath of 9/11. I was in Manhattan that day, heard the first plane go over my head, saw the fireball from the second, secured the last rental car for a drive back to an office we then maintained in Minnesota and took what seemed like an eternity to inch into New Jersey across the George Washington Bridge, while the radio announced breaking news that a truck had been stopped with explosives on that very same bridge...

Finally, on Friday afternoon, I completed my cross-country journey that began Tuesday morning in the heart of Manhattan. Having spent 90 minutes clearing security in the Minneapolis airport, I was able to secure a “stand-by” seat on the day’s first flight to Los Angeles. Happily, aside from a little turbulence, my trip to the West Coast was uneventful, though the plane was only about 40% full.

Friday’s happy ending followed an interesting experience on Thursday night. Having been able to land a seat on a 7:00 P.M. flight, I came within 15 minutes of boarding the plane before Northwest Airlines grounded all of its flights for the evening. The dominant Minneapolis air carrier claimed that there had been a “major security breach” in New York and that the FAA

had again shut down all air travel. Obviously, this did little to put any simmering fears of flying at ease and when a Northwest flight attendant answered the question, “When will we fly again?,” with a frightened, “Never!,” my next thought was to head for the car rental counter.

I struck up a conversation with two fellow Orange County residents who had been stuck in Minneapolis for three days with previous attempts at returning home dashed at the last minute. The three of us made a decision to drive back to California together and we headed to National Car Rental. Upon arriving at the rental office, we discovered that several other groups of “new friends” had the same idea. I read later that Amazon.com CEO Jeff Bezos had set out for Seattle via minivan earlier that day. Unprecedented times called for unprecedented actions and I had little fear that any of my new friends would do me any harm. We each simply wanted to get home to our families.

While we made it as far as Albert Lea, Minnesota, some 80 miles from the Minneapolis airport, before learning that the skies were again open, turning around and subsequently securing passage on our early-Friday flights, I believe that time spent in philosophical discourse with one of my new friends was priceless. This new friend’s name was Abdul Halim. Yes, that name is correct! Abdul was originally from Pakistan. Discussing religion, politics and life with those we know is not usually an everyday occurrence, but Abdul and I covered all three topics during our four hours together. Happily, I was able to learn much about the countries of Afghanistan and Pakistan and the religion of Islam and Abdul learned why it was a mistake to buy Cisco at \$84 as well as other views on life from yours truly. Only in America could a Minnesota-born money-manger and a Pakistani aerospace worker become friends in a matter of hours.

As we await the reopening of U.S. markets tomorrow morning, I see that the Asian markets are again selling off, with the Japanese Nikkei hitting a 17-plus-year low. The consensus seems to be that the U.S. markets will plunge on the open, before recovering later in the day and over the next few days and weeks. Legendary investor Warren Buffett said today, “I won’t be selling anything. If prices would fall significantly, there’s some things I might buy.” He also stated that the country is no different economically than a week ago, saying “And certainly if you owned a piece of an American business that you felt good about a week ago, it would be crazy, in my view, to be selling it at 9:30 tomorrow morning.”

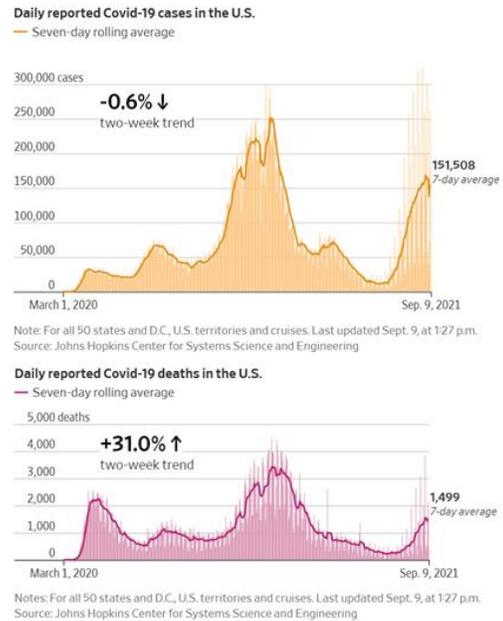
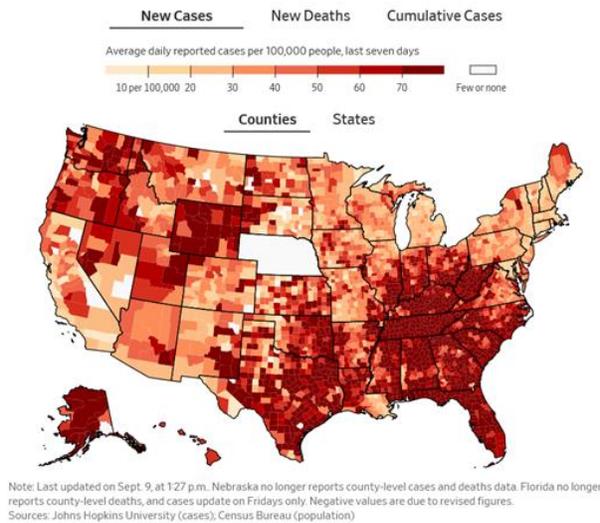
*So far, we have heard from a handful on our managed account customers. With one exception, each of them was interested in buying stocks this week, especially if they open significantly lower. One even expressed that it is his patriotic duty to buy, a view shared by many investors over the weekend. Some believe that the Federal Reserve will lower interest rates, perhaps as early as tomorrow, in an effort to spur the recovery. **Regardless of the direction of stock prices tomorrow, we continue to believe in the long-term strength of America’s capital markets and we continue to think that undervalued equities will deliver superior returns over the next three to five years.***

Obviously, our long-term optimism does not preclude more near-term consternation, especially as COVID-19 remains a stiff headwind, even as reported case counts have started to decline.



Though there is good news in that case counts seem to have plateaued, the COVID-19 fatality count has shot up, with the virus worse, not surprisingly, in states with lower vaccination rates. With only 64.9% of those 18 and over in the U.S. fully vaccinated, the health crisis has been extended, delaying a return to normalcy for Corporate America.

THE WALL STREET JOURNAL.



We also realize that the strength of the economic rebound is in question,...



While Q1 and Q2 2021 saw an acceleration of the economic rebound, the Atlanta Fed's current projection for Q3 2021 GDP growth on an annualized basis has dropped in the last couple of weeks to 3.7%.



...even as the latest jobs statistics were trending in the right direction.



The August employment report saw a much-lower-than-expected 235,000 new payrolls created, but businesses continue to have difficulty finding qualified employees as the number of job openings in July totaled a whopping 10.9 million, setting a record for the fifth straight month. The labor picture is still a work in progress, but looking at more current data, first-time filings for jobless benefits fell to 310,000 in the week ending September 4, a new pandemic low.

Still, we think that equities, like those contained in our broadly diversified portfolios,...



CURRENT PORTFOLIO AND INDEX VALUATIONS

| Name | Price to Earnings Ratio | Price to Fwd. Earnings Ratio | Price to Sales Ratio | Price to Book Ratio | Dividend Yield |
|--------------------------|-------------------------|------------------------------|----------------------|---------------------|----------------|
| TPS Portfolio | 15.9 | 13.7 | 1.2 | 2.5 | 2.2 |
| ValuePlus | 16.9 | 13.8 | 1.5 | 2.4 | 2.0 |
| Dividend Income | 15.1 | 13.4 | 1.0 | 2.4 | 2.6 |
| Focused Dividend Income | 15.6 | 13.7 | 1.2 | 2.5 | 2.5 |
| Focused ValuePlus | 15.7 | 14.6 | 1.6 | 2.7 | 2.1 |
| Small-Mid Dividend Value | 13.0 | 11.5 | 0.8 | 1.7 | 2.3 |
| Russell 3000 | 29.9 | 23.0 | 2.8 | 4.3 | 1.3 |
| Russell 3000 Growth | 43.1 | 32.8 | 5.0 | 12.9 | 0.7 |
| Russell 3000 Value | 22.4 | 17.3 | 1.9 | 2.5 | 1.9 |
| Russell 1000 | 27.8 | 22.6 | 3.0 | 4.5 | 1.3 |
| Russell 1000 Growth | 40.2 | 31.8 | 5.5 | 14.0 | 0.7 |
| Russell 1000 Value | 20.8 | 17.1 | 2.0 | 2.6 | 1.9 |
| S&P 500 Index | 26.7 | 22.0 | 3.1 | 4.6 | 1.3 |
| S&P 500 Growth Index | 35.2 | 29.1 | 5.8 | 11.0 | 0.7 |
| S&P 500 Value Index | 20.7 | 17.0 | 2.0 | 2.8 | 2.1 |
| S&P 500 Pure Value Index | 12.8 | 10.3 | 0.8 | 1.3 | 2.5 |

As of 09.11.21. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

...continue to be very attractive in the current low interest rate environment,...



The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (3.74% vs. 1.34% 10-Year) and S&P 500 dividend yield of 1.33%.



...especially considering that the income streams for stocks have grown over time.



Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 actually inched up in 2020, while in the last three weeks, *TPS* stocks Verizon Communications, Lam Research and Deere hiked their payouts and Tapestry reinstated its quarterly distribution.

| COUNT OF S&P 500 DIVIDEND ACTIONS | INCREASES | INITIATIONS | DECREASES | SUSPENSIONS | S&P 500 DIVIDENDS PER SHARE | |
|--------------------------------------|-----------|-------------|-----------|-------------|-----------------------------------|----------|
| | | | | | Year | Dividend |
| 2021 (as of 9.9.21) | 245 | 14 | 2 | 1 | 2022 (Est.) | \$65.48 |
| 2020 | 287 | 11 | 27 | 42 | 2021 (Est.) | \$60.79 |
| 2019 | 355 | 6 | 7 | 0 | 2020 | \$58.95 |
| 2018 | 374 | 6 | 3 | 0 | 2019 | \$58.69 |
| 2017 | 351 | 5 | 9 | 2 | 2018 | \$53.86 |
| 2016 | 344 | 7 | 19 | 2 | 2017 | \$50.47 |
| 2015 | 344 | 7 | 16 | 3 | 2016 | \$46.73 |
| 2014 | 375 | 8 | 8 | 0 | 2015 | \$43.49 |
| 2013 | 366 | 15 | 12 | 0 | 2014 | \$39.44 |
| 2012 | 333 | 15 | 11 | 1 | 2013 | \$34.99 |
| 2011 | 320 | 22 | 5 | 0 | 2012 | \$31.25 |
| 2010 | 243 | 13 | 4 | 1 | 2011 | \$26.43 |
| 2009 | 151 | 6 | 68 | 10 | 2010 | \$22.73 |
| 2008 | 236 | 5 | 40 | 22 | 2009 | \$22.41 |
| | | | | | 2008 | \$28.39 |

Source: Standard & Poor's.

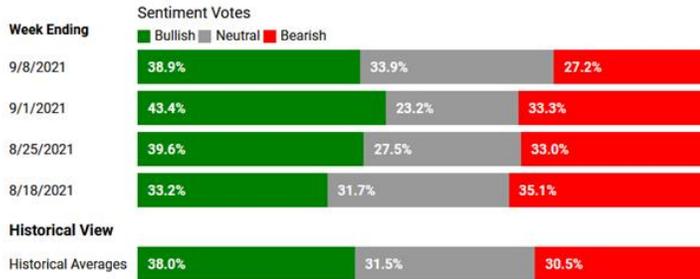
Source: Bloomberg. As of 9.10.21

True, the contrarian in us might prefer that folks were more disheartened by the recent equity market skid,...



AAIL Investor Sentiment Survey

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, so the number of Bulls in the latest AAIL Sentiment Survey a tad above normal and Bears below average would be viewed as a modest negative. The 11.7-point Bull-Bear spread is above par and in the 6th decile of the historical figures.

AAIL Bull-Bear Spread

| Decile | Low Reading of the Range | High Reading of the Range | Count | R3K | R3K | R3K | R3K | R3K | R3K | R3K | R3K |
|--|--------------------------|---------------------------|-------|-----------------------------------|----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| | Range | Range | | Next 1-Week Arithmetic Average TR | Next 1-Week Geometric Average TR | Next 1-Month Arithmetic Average TR | Next 1-Month Geometric Average TR | Next 3-Month Arithmetic Average TR | Next 3-Month Geometric Average TR | Next 6-Month Arithmetic Average TR | Next 6-Month Geometric Average TR |
| Below & Above Median Bull Bear Spread = 8.00 | | | | | | | | | | | |
| BELOW | -54.0 | 8.0 | 906 | 0.27% | 0.23% | 1.27% | 1.14% | 3.67% | 3.28% | 7.20% | 6.45% |
| ABOVE | 8.1 | 62.9 | 872 | 0.17% | 0.15% | 0.52% | 0.43% | 1.95% | 1.69% | 4.51% | 4.04% |
| Ten Groupings of 1778 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 | -7.2 | 175 | 0.31% | 0.28% | 0.93% | 0.80% | 3.78% | 3.42% | 7.19% | 6.42% |
| 3 | -7.2 | -1.2 | 178 | 0.37% | 0.34% | 1.51% | 1.41% | 3.33% | 2.94% | 7.09% | 6.45% |
| 4 | -1.2 | 3.0 | 178 | 0.07% | 0.03% | 1.11% | 1.02% | 3.00% | 2.64% | 6.52% | 5.99% |
| 5 | 3.0 | 8.0 | 194 | 0.05% | 0.02% | 0.66% | 0.56% | 2.42% | 2.17% | 4.67% | 4.15% |
| 6 | 8.1 | 12.2 | 161 | 0.09% | 0.07% | 0.41% | 0.28% | 1.61% | 1.37% | 4.58% | 4.10% |
| 7 | 12.2 | 16.5 | 177 | 0.21% | 0.19% | 0.70% | 0.60% | 2.46% | 2.21% | 5.09% | 4.65% |
| 8 | 16.6 | 22.0 | 184 | 0.17% | 0.15% | 0.73% | 0.66% | 2.08% | 1.81% | 6.04% | 5.62% |
| 9 | 22.0 | 29.2 | 172 | 0.06% | 0.05% | 0.38% | 0.29% | 2.01% | 1.73% | 4.15% | 3.57% |
| 10 | 29.2 | 62.9 | 178 | 0.29% | 0.27% | 0.34% | 0.27% | 1.55% | 1.32% | 2.65% | 2.21% |

From 07.31.87 through 9.9.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

...even as the latest real-time sentiment numbers are tilted toward fear,...



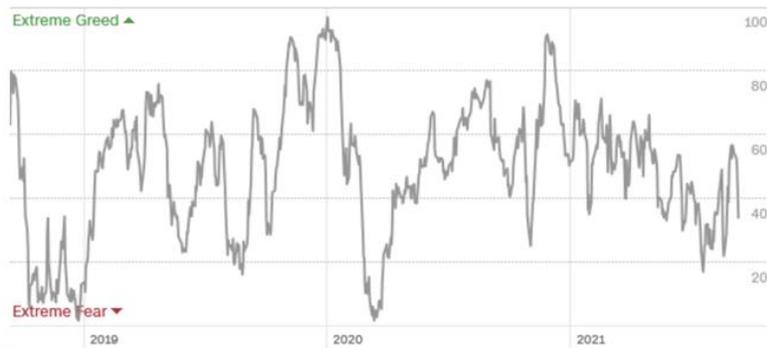
Fear & Greed Index

What emotion is driving the market now?



Seven Fear & Greed Indicators

Fear & Greed Over Time



With the major market averages skidding last week, folks became more pessimistic. The *CNNMoney* Fear & Greed Index fell back into Fear territory. Extreme Fear readings for Market Volatility, Stock Price Breadth, Safe Haven Demand and Stock Price Strength, along with Fear in Put and Call Options and Market Momentum were offset only by Extreme Greed in Junk Bond Demand.

...but we wouldn't hesitate to commit new long-term-oriented money to stocks today, with the 25 undervalued names below offering attractive entry points after enduring double-digit percentage declines since the Value indexes peaked three months ago.



Summer Selloff - Undervalued TPS Stocks Down 10%+ Since June 8 Value High

| Symbol | Common Stock | Since 6.8.21 TR % | YTD TR % | 09.10.21 Price | Target Price | Sector | P/E | P/S | P/TBV | ROCE | EV/ EBITDA | FCF Yld | Debt/ TE (%) | Div Yld | Mkt Cap |
|--------|------------------------|----------------------|-------------|-------------------|-----------------|------------------------|------|-----|-------|-------|---------------|------------|-----------------|------------|------------|
| ADM | Archer-Daniels-Midland | -12.3 | 21.0 | \$59.89 | \$79.85 | Food, Beverage | 12.4 | 0.4 | 2.1 | 11.3 | 12.2 | 0.5 | 57% | 2.5% | 33,500 |
| ALIZY | Allianz SE | -14.5 | -3.7 | \$22.70 | \$34.01 | Insurance | 9.1 | nmf | 1.3 | 11.6 | nmf | nmf | nmf | 3.6% | 93,570 |
| APD | Air Products | -10.1 | -0.9 | \$268.00 | \$343.44 | Materials | 30.8 | 6.1 | 5.1 | 16.0 | 17.4 | 2.5 | 61% | 2.2% | 59,326 |
| BHE | Benchmark Electronics | -10.7 | 3.4 | \$27.61 | \$36.96 | Technology Hardware | 24.2 | 0.5 | 1.4 | 3.0 | 8.0 | 11.0 | 29% | 2.4% | 982 |
| BIG | Big Lots | -35.7 | 8.8 | \$45.98 | \$85.23 | Retailing | 6.6 | 0.2 | 1.3 | 21.0 | 6.0 | -3.7 | 129% | 2.6% | 1,497 |
| C | Citigroup | -11.4 | 15.5 | \$69.57 | \$103.03 | Banks | 7.0 | nmf | 0.9 | 11.4 | nmf | nmf | nmf | 2.9% | 141,003 |
| CAT | Caterpillar | -14.2 | 14.4 | \$205.01 | \$264.43 | Capital Goods | 23.0 | 2.4 | 12.1 | 28.7 | 13.4 | 5.0 | 282% | 2.2% | 112,237 |
| EOG | EOG Resources | -21.7 | 38.7 | \$67.14 | \$105.01 | Energy | 15.0 | 2.8 | 1.9 | 9.1 | 6.3 | 6.4 | 24% | 2.5% | 39,200 |
| FDX | FedEx | -14.4 | 0.0 | \$257.55 | \$372.49 | Transportation | 14.2 | 0.8 | 4.1 | 24.6 | 10.1 | 6.2 | 202% | 1.2% | 68,557 |
| FL | Foot Locker | -16.2 | 30.4 | \$52.20 | \$85.99 | Retailing | 7.5 | 0.6 | 1.7 | 35.5 | 6.2 | 12.8 | 75% | 2.3% | 5,419 |
| GM | General Motors | -22.6 | 18.9 | \$49.49 | \$78.82 | Autos & Components | 5.5 | 0.5 | 1.5 | 27.6 | 3.3 | 29.4 | 167% | 0.0% | 71,846 |
| HFC | HollyFrontier | -18.2 | 15.3 | \$29.53 | \$54.70 | Energy | nmf | 0.3 | 1.9 | 3.6 | 9.0 | -1.7 | 138% | 0.0% | 4,798 |
| JWN | Nordstrom | -23.9 | -15.0 | \$26.52 | \$42.98 | Retailing | nmf | 0.3 | nmf | 0.0 | 5.8 | 9.8 | nmf | 0.0% | 4,215 |
| KEY | KeyCorp | -11.8 | 24.3 | \$19.87 | \$26.72 | Banks | 8.6 | nmf | 1.4 | 14.2 | nmf | nmf | nmf | 3.7% | 19,003 |
| LEG | Leggett & Platt | -14.3 | 7.1 | \$46.68 | \$64.68 | Consumer Durables | 16.6 | 1.3 | nmf | 29.7 | 10.4 | 6.9 | nmf | 3.6% | 6,222 |
| LMT | Lockheed Martin | -10.3 | -0.4 | \$345.88 | \$501.21 | Capital Goods | 13.5 | 1.4 | nmf | 139.0 | 10.4 | 5.2 | nmf | 3.0% | 95,780 |
| MOS | Mosaic Co | -11.0 | 38.9 | \$31.78 | \$43.16 | Materials | 12.5 | 1.2 | 1.3 | 15.0 | 7.7 | 5.6 | 44% | 0.9% | 12,073 |
| NEM | Newmont Corp | -17.7 | -2.2 | \$56.99 | \$78.64 | Materials | 16.3 | 3.6 | 2.2 | 12.7 | 7.8 | 7.9 | 28% | 3.9% | 45,542 |
| PNW | Pinnacle West Capital | -13.3 | -3.9 | \$74.55 | \$105.30 | Utilities | 14.5 | 2.3 | 1.5 | 10.3 | 10.1 | -2.2 | 126% | 4.5% | 8,408 |
| SJM | J M Smucker | -10.9 | 7.1 | \$121.06 | \$151.02 | Food, Beverage | 14.0 | 1.7 | nmf | 9.6 | 10.0 | 7.4 | nmf | 3.3% | 13,118 |
| STX | Seagate Tech | -16.8 | 37.3 | \$83.92 | \$113.90 | Technology Hardware | 14.4 | 1.8 | nmf | 108.7 | 12.1 | 5.6 | nmf | 3.2% | 18,964 |
| TKR | Timken Co | -20.0 | -7.9 | \$70.41 | \$95.00 | Capital Goods | 14.9 | 1.4 | 9.7 | 17.2 | 9.8 | 6.1 | 271% | 1.7% | 5,369 |
| WRK | Westrock | -10.5 | 20.7 | \$51.87 | \$71.12 | Materials | 18.0 | 0.8 | 6.8 | -5.5 | 15.9 | 12.5 | 423% | 1.9% | 13,850 |
| XOM | Exxon Mobil | -11.8 | 37.2 | \$53.98 | \$82.24 | Energy | 33.7 | 1.1 | 1.4 | -7.9 | 12.1 | 6.6 | 29% | 6.4% | 228,528 |
| ZBH | Zimmer Biomet | -10.7 | -8.6 | \$140.44 | \$186.75 | Health Care Eqmt/Srvcs | 18.7 | 3.7 | nmf | 7.6 | 17.3 | 3.8 | nmf | 0.7% | 29,330 |

As of 9.10.21: 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

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 look at a few of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices.

Shares of **Biogen** (BIIB – \$299.81) sank some 6% on Thursday as CEO Michel Vounatsos admitted that the launch of the firm’s controversial Alzheimer’s therapy (Aduhelm) has been “slower than we anticipated.”

Mr. Vounatsos pinned opposition to the drug on “Too much confusion, misinformation and controversy surrounding our data and the approval process.” He continued, “I can tell you, Biogen stands behind our clinical data for the 8 studies with more than 3,000 patients that supported the accelerated approval, and we stand behind the integrity of the review process. It is

imperative now that the society moves its attention to the clinical data and the patients in need, the way we did at the early days for HIV and oncology therapies. To this end, we encourage to see a growing number of prominent medical experts publishing support of ADUHELM and patients' involvement in the decision-making, including and not limited to guidelines on how to use the product in the real world.”

Nearly a week ago, Congressional members of two House committees (Energy and Commerce and Oversight and Reform) wrote a letter to acting FDA commissioner Janet Woodcock, MD seeking clarification of apparent anomalies in FDA's processes surrounding its review of Aduhelm. They have also sought detailed documentation about how the decision was made and how internal disagreements among agency staff were resolved.

No doubt, there are plenty of question marks around Aduhelm, even as we continue to believe that 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. Of course, Biogen also faces 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 the blockbuster Multiple Sclerosis drug Tecfidera, and potential competition from Novartis for its spinal muscular atrophy treatment Spinraza, raising the importance of the company's neurological effort.

Still, as Mr. Vounatsos reminded last week, “We are and we remain a pioneer in neuroscience and 2021 so far is truly a transformative year for the company as we continue to be a multi-franchise portfolio. In addition to the very important approval of ADUHELM for AD in the US, we also reported positive Phase III results in depression as you know; positive Phase II results in acute ischemic stroke, essential tremor; and very important milestones across our core business in MS, SMA, and biosimilars. BD continued and we recently closed on our collaboration with Innocare for a CNS penetrant BTK inhibitor for MS.”

Our Target Price for our relatively small BIIB stake now stands at \$432.

U.S airlines, including United and Southwest, cut revenue guidance after soaring Delta-variant COVID-19 cases put a damper on summer travel plans. In addition, major storms such as Hurricane Ida caused substantial disruptions on the East Coast and there remains potential for more disruptions as hurricane season is not yet over. The outlook for the holiday travel season remains far from certain. Interestingly, airline stocks took flight on Thursday, following the warnings, only to see a descent in Friday's market-wide downturn.

For its part, **Delta Air Lines** (DAL – \$39.36) had previously reported that Q3 revenue would be down 30% to 35% compared with the same period in 2019, with Thursday's update indicating that the number would be at the low end of that target, even as overall capacity guidance (down 28% to 30%) remained unchanged. The company does expect to report an adjusted pre-tax profit. To be sure, flare-ups in infections could result in the reduction of capacity for the winter schedule. And, an area that we think DAL has been particularly successful, business travel has been 40% lower than pre-pandemic levels as corporate return-to-office plans for many firms have been delayed again.

CEO Edward H. Bastian also said Delta will charge unvaccinated employees an additional \$200 per month to “address the financial risk” of employees falling ill (Delta self-insures its workforce), while United said it would put unvaccinated employees with religious exemptions on unpaid leave until the company can figure out how to make a reasonable accommodation to those folks without endangering customer or colleague health. While we of course put health above wealth, we are glad to see that DAL and United are protecting their customers, as well as shareholders, from downside.

The distribution of vaccines underway, we believe there is hope that normalcy will soon return, but all of the airlines remain at risk to the extent that infections ramp up. Delta, United, **Alaska** (ALK – \$56.09) and all of the other airlines have airplanes that are actual infection vectors. As such, it would be unsurprising for another set of rules and restrictions to be put in place to curb the spread. Our Target Price for DAL is now \$65 and for ALK is \$84 We continue to hold our airline positions, but the higher-than-average upside potential comes with higher-than-average risk.

Digital Realty Trust (DLR – \$155.37) saw its stock price skid after the data center REIT announced plans to issue 6.25 additional million shares at \$160.50 each. While the offering dilutes the value of the existing 282.6 million outstanding DLR shares, it will be used to repay outstanding debt, acquire additional properties or businesses, invest in securities and provide working capital. The forward sale agreement also includes an underwriter option for an aggregate issue amount of 7.1875 million shares.

DLR completed its acquisition of InterXion and is working on integrating the company, which takes capital, hence the desire for new money to bolster the balance sheet. As of June 30, DLR had \$15.5 billion of debt and \$121 million of cash, which would be disconcerting were Digital Realty not structured as a REIT. Because DLR’s debt is cheap (a 2.48% weighted coupon with a weighted maturity around 6 years), the figure doesn’t scare us and we like the growth trajectory for the data center business. Plus, the company’s valuation metrics, including a Price-to-FFO ratio around 23 and dividend yield around 3.0%, are relatively reasonable. The demand for technology real estate has yet to abate, pushing shares up about 13% this year with less volatility than the S&P 500 index. Our Target Price for DLR is \$174.

Shares of **Kroger Co.** (KR – \$42.67) retreated in price more than 7% on Friday as the firm reported Q2 financial results. The grocer earned \$0.80 per share (21% better than the consensus analyst estimate), but inflation is in center view as gross margins (ex fuel) declined by 60 basis points. Identical sales without fuel also decreased by the same amount, although digital sales were 114% higher over the past 2 years.

CEO Rodney McMullen commented, “Our strategic focus on leading with fresh and accelerating with digital continues to build momentum across our business. Kroger’s seamless ecosystem is working. This was evident during the quarter as we saw customers seamlessly shift between channels, and we continued to see strong digital engagement. Customers are eating more food at home because it is more affordable, convenient, and healthier than other options. Our associates continue to support our customers and our communities through the pandemic by delivering a full, fresh, and friendly experience every day. We are committed to our environmental, social,

and governance strategy to advance positive outcomes for people and our planet and create more resilient global systems, driven by our Zero Hunger | Zero Waste social and environmental impact plan. We are leveraging technology, innovation, and our competitive moats to deliver against the initiatives outlined at our 2021 investor day, and we remain confident in our ability to deliver total shareholder returns of 8% to 11% over time.”

Management expects full-year EPS between \$3.25 and 3.35 and remains committed to its guidance of an 8% to 11% total shareholder return, driven by a combination of sales growth, slight margin improvements and returning excess cash flow via dividends and stock buybacks.

While competition remains stiff in the grocery space, we like that Kroger continues to remake itself and has moved more in the direction of being offensive versus defensive/reactive. Kroger has developed a competitive portfolio of house brands, particularly within the fresh category, and we appreciate the ballast that the stock has offered our portfolio through rocky times.

KR trades at 13.5 times NTM adjusted EPS projections and now yields 2.0%, given the 17% dividend hike in June, marking its 15th consecutive year of increases. Kroger repurchased \$349 million of its stock in the quarter and year-to-date has bought back \$751 million of shares. As of the end of the second quarter, \$779 million remains outstanding under the current authorization announced in June. Our Target Price for KR remains \$50.

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