# Market Commentary Monday, September 20, 2021

September 20, 2021

**EXECUTIVE SUMMARY**

Newsletter Trades – 1 Sell for 4 Accounts
Week in Review – September Continues to be Not so Grand
Econ News – A Few Better-than-Expected Statistics
Solid GDP Growth – Supportive of Favorable Corporate Profit Comparisons and Dividend Increases
Sentiment – AAII Gives a Contrarian Buy Signal
Fear – Tons of Cash in Money Markets and Negative Yielding Government Debt
Tax Hikes – Historical Data on Equity Returns
Valuations – Inexpensive Metrics on our Portfolios
Target Prices – New Listing Coming to theprudentspeculator.com
Stock News – Updates on ORCL, AAPL CSCO, MSFT, CMCSA, GT, ZBH & TKR

**Market Review**

As indicated on our *Sales Alert* of Friday, September 10, we sold on Tuesday, September 14, the 1,090 and 310 shares of **Nippon Telephone & Telegraph** (NTTYY – $29.76) respectively held in TPS Portfolio and Buckingham Portfolio at $29.4688.

In our two hypothetical portfolios, we will use that price to close out the 438 and 796 NTTYY shares respectively held in Millennium Portfolio and PruFolio.

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Certainly, we understand that equity market returns are never linear as the terrific long-term annualized returns enjoyed over the last 94 years of 10.7% (Dividend Payers) to 13.2% (Value Stocks) have come with three setbacks of 5% or year per annum on average and more than one correction of 10% per year on average.

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE & DIVIDENDS WIN RACE

## 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 in 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 | 13.2% | 26.0% |
| Growth Stocks | 9.9% | 21.4% |
| Dividend Paying Stocks | 10.7% | 18.0% |
| Non-Dividend Paying Stocks | 9.4% | 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 | 3.0% | 1.8% |

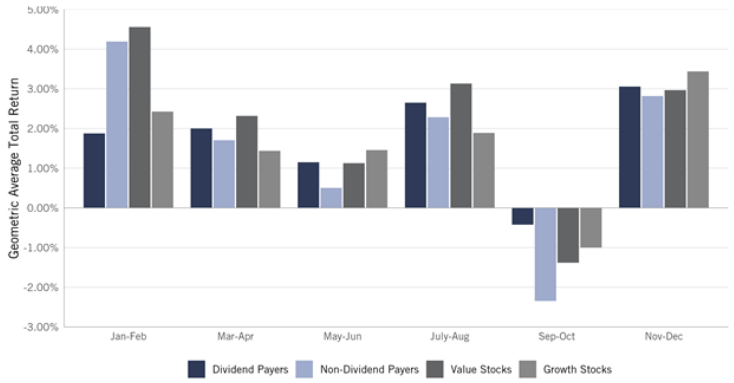
From 06.30.27 through 07.31.21. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

So, we can hardly be surprised that the recent downturn in stocks extended to a second week, especially as we are in the seasonally weak September/October time span.

THE PRUDENT SPECULATOR

SEPTEMBER & OCTOBER – SCARY SINCE 1927, BUT NOT SINCE 1995

While the losses have been relatively modest over the last nine decades, and the period has been nicely positive on average for equities over the past 25 years, with our benchmark Russell 3000 Value index leading the way, September and October are the only two months where returns on stocks have been negative dating back to 1927.




From 07.31.27 through 06.30.21. Geometric average. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

**Scary September & October Last 25 Years**

| Geometric | S&P 500 | Russell 3000 Value | Russell 3000 Growth |
|---|---|---|---|
| Average | 1.08 | 1.18 | 0.68 |
| 2020 | -6.36 | -3.60 | -7.59 |
| 2019 | 4.08 | 5.19 | 2.78 |
| 2018 | -6.30 | -5.46 | -8.93 |
| 2017 | 4.44 | 3.97 | 5.37 |
| 2016 | -1.81 | -1.81 | -2.21 |
| 2015 | 5.75 | 4.11 | 5.37 |
| 2014 | 1.01 | 0.11 | 1.10 |
| 2013 | 7.88 | 7.17 | 9.06 |
| 2012 | 0.69 | 2.64 | -0.95 |
| 2011 | 3.13 | 2.94 | 2.78 |
| 2010 | 13.07 | 11.30 | 16.18 |
| 2009 | 1.80 | 0.47 | 2.56 |
| 2008 | -24.21 | -23.42 | -27.42 |
| 2007 | 5.39 | 3.29 | 7.72 |
| 2006 | 5.92 | 5.40 | 6.43 |
| 2005 | -0.87 | -1.30 | -0.73 |
| 2004 | 2.63 | 3.43 | 2.96 |
| 2003 | 4.54 | 5.22 | 4.59 |
| 2002 | -3.02 | -4.62 | -2.17 |
| 2001 | -6.32 | -7.90 | -5.45 |
| 2000 | -5.68 | 3.11 | -13.67 |
| 1999 | 3.41 | 1.63 | 5.24 |
| 1998 | 15.06 | 13.50 | 16.30 |
| 1997 | 1.95 | 3.15 | 1.09 |
| 1996 | 8.54 | 7.56 | 7.18 |

*% Total Return August 31 - October 31. Source Kovitz using data from Bloomberg*

However, we would argue that news on the COVID-19 front improved modestly last week, with a decline in new reported cases,…

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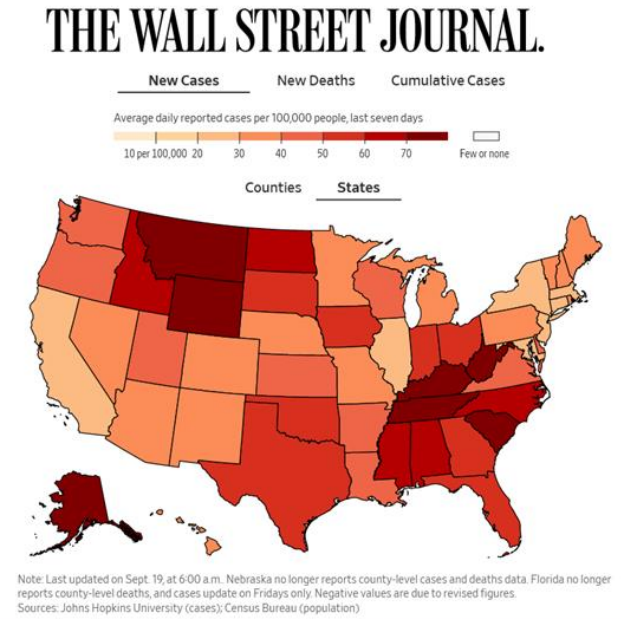
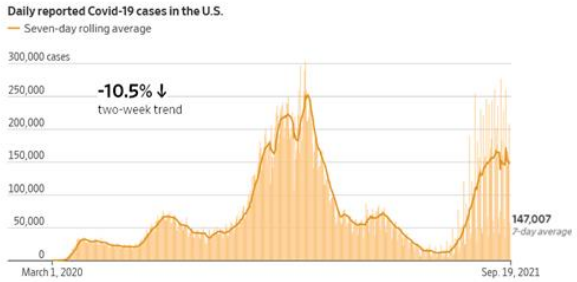
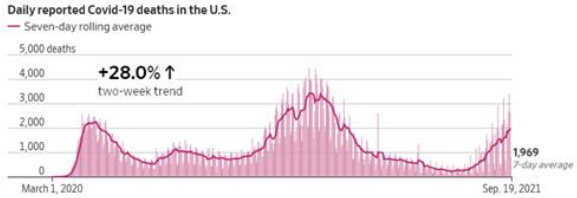
LOW VACCINATION RATES AND THE DELTA VARIANT = COVID-19 SPIKE

Though there is good news in that case counts have come down, the COVID-19 fatality count has shot up, with the virus worse, not surprisingly, in states with lower vaccination rates. With only 65.7% 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.




…and the latest batch of economic stats had some upside surprises, including a very impressive jump last month in retail sales,…

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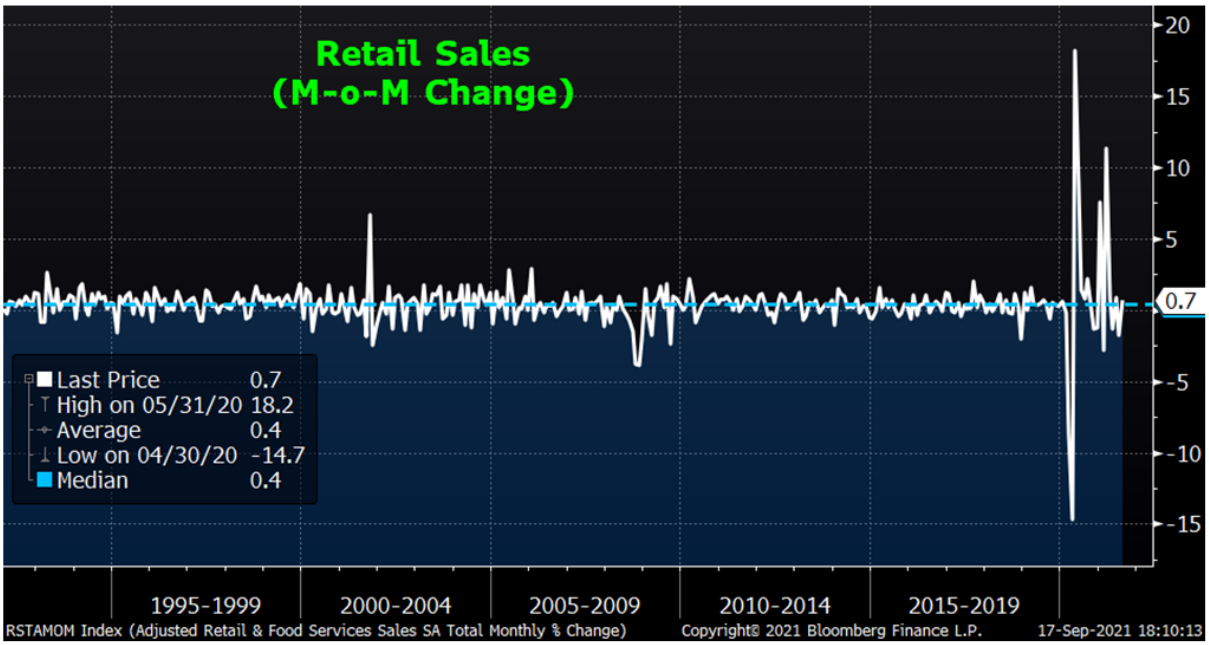
RETAIL SALES BLOW AWAY EXPECTATIONS IN AUGUST

Although the decline for July was revised down to a 1.8% decline from an initial 1.1% retreat, Americans opened their pocketbooks in August, with retail sales jumping 0.7%, well above expectations of a 0.7% drop. Excluding autos, which are in short supply, sales rose 1.8%




…and the latest numbers on the health of manufacturing in the Northeast.

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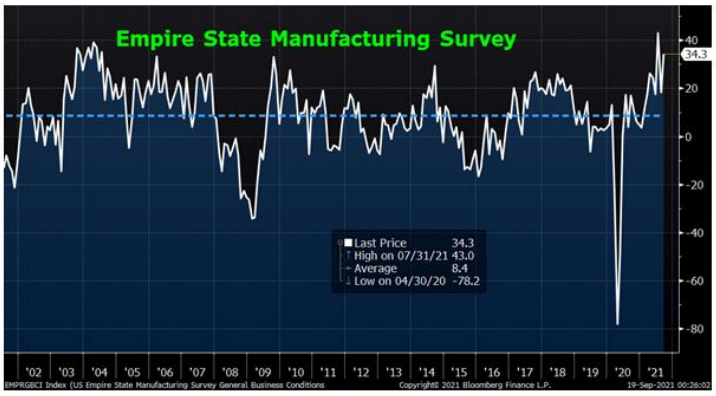
EAST COAST FACTORY ACTIVITY SOARS IN SEPTEMBER





The Empire State gauge of manufacturing activity in the New York area jumped in September to a much-better-than-expected 34.3, 17 points above forecasts. The Philadelphia Fed's September measure of manufacturing activity in the mid-Atlantic region reversed four months of declines, rebounding to 30.7, nearly 12 points better than estimates. Both indexes are still well above average for this business conditions measure, despite supply-chain bottlenecks.

To be sure, folks on Main Street are not overly enthused about the economic outlook,…

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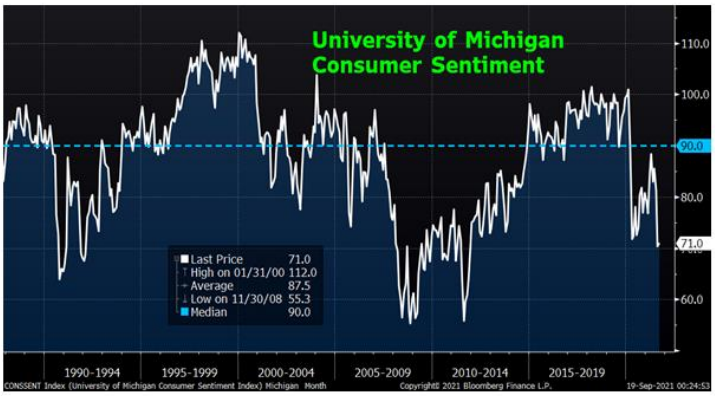
MIXED PICTURE FOR MAIN STREET SENTIMENT


The NFIB Small Business Index for August inched up 0.4 points to 100.1, besting estimates and climbing further above average as owners surveyed became a bit more optimistic on the U.S. economy. Showing more caution, the preliminary Univ. of Michigan gauge of consumer sentiment this month bounced to 71.0, up from 70.3 in August, though the tally did trail expectations. The median for this gauge has been 90.0, so consumers are far from optimistic.

…and jobless claims ticked up in the latest week,…

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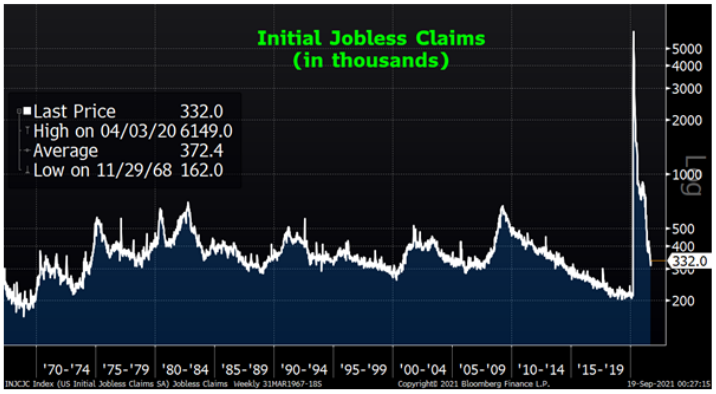
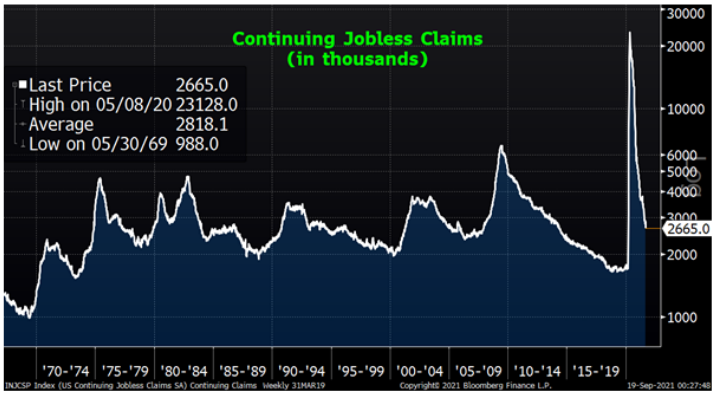
JOBLESS FILINGS AND CONTINUING CLAIMS NEAR/AT PANDEMIC LOWS




With Hurricane Ida deserving much of the blame for the increase, as claims in Louisiana jumped for the second straight week, new filings for unemployment benefits for the period ended September 11 came in at a seasonally adjusted 332,000, up 20,000 from the week prior and higher than forecast. Continuing claims filed through state programs dropped to 2.67 million, a new pandemic low, and businesses continue to struggle to find workers.

…but projections for Q3 GDP growth are still very healthy,…

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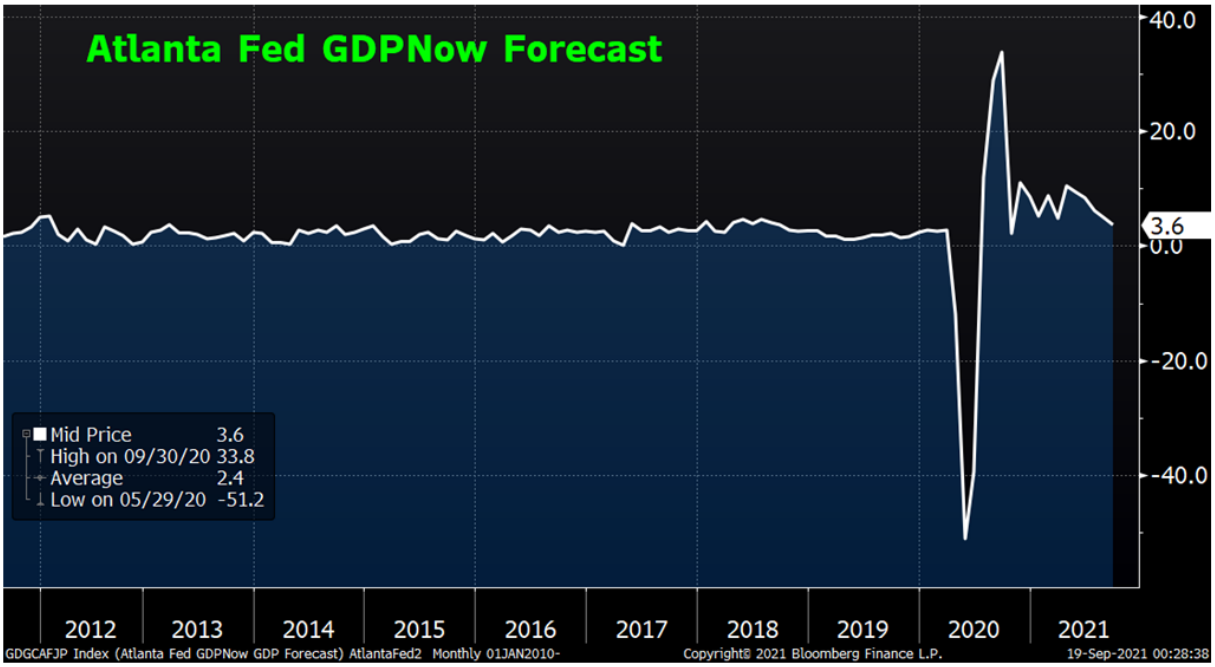
LESS-STELLAR, BUT STILL SOLID U.S. GDP GROWTH ESTIMATED FOR Q3

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 3.6%.

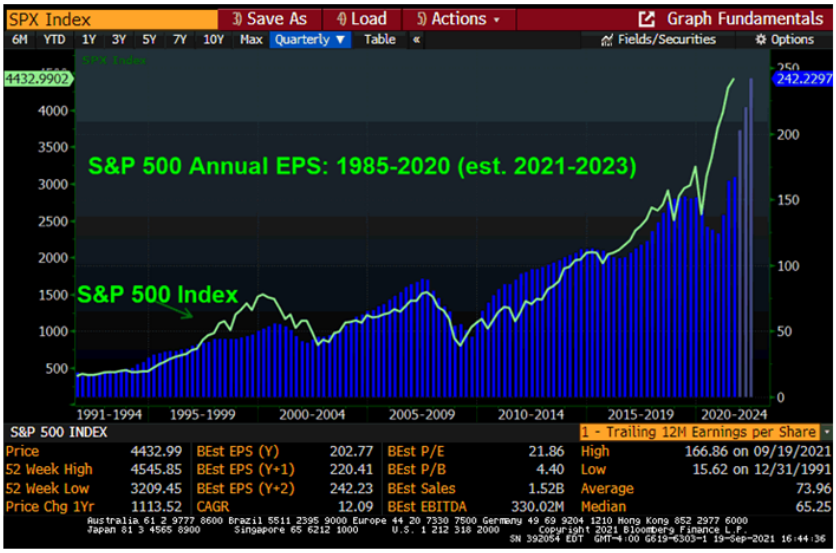



…which should continue to support strong growth in corporate profits,…

THE PRUDENT SPECULATOR

## EPS PLUNGED IN '20 BUT LIKELY TO REBOUND MIGHTILY IN '21 & '22

Q2 2021 earnings reporting season has been terrific on both an absolute and a relative basis. Of course, full-year 2020 COVID-19-impacted EPS were miserable, so a massive rebound was expected, but estimates have been moving higher for 2021, 2022 and 2023.




| S&P 500 Earnings Per Share | | |
|---|---|---|
| Quarter Ended | Bottom Up Operating EPS 3 Month | Bottom Up Operating EPS 12 Month |
| ESTIMATES | | |
| 12/31/2022 | $57.18 | $218.03 |
| 9/30/2022 | $55.39 | $211.49 |
| 6/30/2022 | $54.10 | $204.64 |
| 3/31/2022 | $51.36 | $202.57 |
| 12/31/2021 | $50.64 | $198.62 |
| 9/30/2021 | $48.54 | $186.16 |
| 6/30/2021 | $52.03 | $175.52 |
| | | |
| ACTUAL | | |
| 3/31/2021 | $47.41 | $150.28 |
| 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 9.15.21*

…and generous dividend payouts.

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DIVIDENDS PROVIDE HANDSOME INCOME

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, despite the pandemic and associated economic turmoil, while in the last week, *TPS* stocks Fifth Third Bancorp and Microsoft hiked their quarterly payouts.

| COUNT OF S&P 500 DIVIDEND ACTIONS | INCREASES | INITIATIONS | DECREASES | SUSPENSIONS |
|---|---|---|---|---|
| 2021 (as of 9.16.21) | 249 | 14 | 2 | 1 |
| 2020 | 287 | 11 | 27 | 42 |
| 2019 | 355 | 6 | 7 | 0 |
| 2018 | 374 | 6 | 3 | 0 |
| 2017 | 351 | 5 | 9 | 2 |
| 2016 | 344 | 7 | 19 | 2 |
| 2015 | 344 | 7 | 16 | 3 |
| 2014 | 375 | 8 | 8 | 0 |
| 2013 | 366 | 15 | 12 | 0 |
| 2012 | 333 | 15 | 11 | 1 |
| 2011 | 320 | 22 | 5 | 0 |
| 2010 | 243 | 13 | 4 | 1 |
| 2009 | 151 | 6 | 68 | 10 |
| 2008 | 236 | 5 | 40 | 22 |

*Source: Standard & Poor's.*

| S&P 500 DIVIDENDS PER SHARE | |
|---|---|
| 2022 (Est.) | $65.47 |
| 2021 (Est.) | $60.80 |
| 2020 | $58.95 |
| 2019 | $58.69 |
| 2018 | $53.86 |
| 2017 | $50.47 |
| 2016 | $46.73 |
| 2015 | $43.49 |
| 2014 | $39.44 |
| 2013 | $34.99 |
| 2012 | $31.25 |
| 2011 | $26.43 |
| 2010 | $22.73 |
| 2009 | $22.41 |
| 2008 | $28.39 |

*Source: Bloomberg. As of 9.17.21*

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Not surprisingly, we remain optimistic about the prospects for stocks going forward, and we are perplexed that many investment professionals think that there is too much enthusiasm for equities,…

## ANALYSTS PESSIMISTIC & AAII BULLISHNESS AT ONE-YEAR LOW: EUPHORIA?

THE WALL STREET JOURNAL.

MONDAY, SEPTEMBER 13, 2021 - VOL. CCLXXVIII NO. 62 WSJ.com ★★★★ $4.00

# Warnings Grow of Autumn Stock Pullback

Investor exuberance, supply-chain strains among factors posing risk to long bull run

By Caitlin McCabe

After a record-breaking bull run for the U.S. stock market this year, many Wall Street analysts are starting to warn that investors could be in for a bumpy ride in the coming weeks and months.

Analysts at firms including Morgan Stanley, Citigroup Inc., Deutsche Bank AG and Bank of America Corp. published notes this month cautioning about current risks in the U.S. equity market. With the S&P 500 already hitting 54 records this year through Thursday—the most during that period since 1995—several analysts said that they believe there is a growing possibility of a pullback or, at the least, flatter returns.

Behind that cautious outlook, the researchers said, is a combination of things, including euphoric investment sentiment, extended valuations and anticipation that inflation and supply-chain disruptions will weigh on corporate margins.

In a Wednesday note, strategists at BofA Securities said they saw little to be excited about, asking, "What good news is left?" They added, "A

*Please turn to page A2*

## Risk Seen Of Stock Pullback

*Continued from Page One*

S&P 500

Friday 4458.58

The S&P 500 has already hit 54 records this year through Thursday, but a Bank of America team moved its year-end price target for the index downward.

Number of S&P 500 record closes through Sept. 9 of each year

54

Sources: FactSet (S&P 500); Dow Jones Market Data (records)

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Behind that cautious outlook, the researchers said, is a combination of things, including euphoric investment sentiment, extended valuations and anticipation that inflation and supply-chain disruptions will weigh on corporate margins.

**AAII Sentiment Survey: Bullish Sentiment Plummets to One-Year Low, Bearish Sentiment Rises**

The results from the latest AAII Sentiment Survey show a major decrease in bullish sentiment, conveying lower optimism among investors that the current bull market will continue. In addition, the number of investors who describe their outlook for stocks as "neutral" increased.

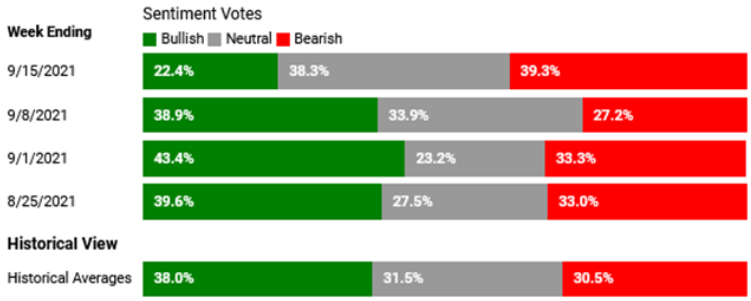
Bullish sentiment, expectations that stock prices will rise over the next six months, dropped 16.4 percentage points to 22.4%. This is the lowest level of bullish sentiment since July 29, 2020, over one year ago. Optimism is well below the historical average low of 28.0% (one standard deviation below the historical average of 38.0%).

…especially given their own warnings about the near term and the latest contrarian "Buy" signal issued by the American Association of Individual Investors.

## AAII SENTIMENT BUY SIGNAL: BULLISHNESS PLUNGES & BEARISHNESS SOARS

### AAII Investor Sentiment Survey

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




### AAII Bull-Bear Spread

| Decile | Low Reading of the Range | High Reading of the Range | Count | R3K Next 1-Week Arithmetic Average TR | R3K Next 1-Week Geometric Average TR | R3K Next 1-Month Arithmetic Average TR | R3K Next 1-Month Geometric Average TR | R3K Next 3-Month Arithmetic Average TR | R3K Next 3-Month Geometric Average TR | R3K Next 6-Month Arithmetic Average TR | R3K Next 6-Month Geometric Average TR |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Below & Above Median Bull Bear Spread = 8.00 | | | | | | | | | | |
| BELOW | -54.0 | 8.0 | 907 | 0.27% | 0.23% | 1.27% | 1.13% | 3.67% | 3.28% | 7.19% | 6.44% |
| ABOVE | 8.1 | 62.9 | 872 | 0.17% | 0.15% | 0.52% | 0.43% | 1.95% | 1.70% | 4.53% | 4.05% |
| | Ten Groupings of 1779 Data Points | | | | | | | | | | |
| 1 | -54.0 | -15.0 | 182 | 0.56% | 0.49% | 2.15% | 1.91% | 5.86% | 5.31% | 10.63% | 9.40% |
| 2 | -14.9 | -7.3 | 174 | 0.34% | 0.31% | 0.95% | 0.82% | 3.86% | 3.51% | 7.22% | 6.45% |
| 3 | -7.2 | -1.2 | 178 | 0.34% | 0.31% | 1.50% | 1.40% | 3.29% | 2.89% | 7.12% | 6.48% |
| 4 | -1.2 | 3.0 | 179 | 0.08% | 0.04% | 1.10% | 1.01% | 2.97% | 2.61% | 6.46% | 5.93% |
| 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 | 12.1 | 160 | 0.09% | 0.07% | 0.42% | 0.29% | 1.58% | 1.34% | 4.52% | 4.03% |
| 7 | 12.2 | 16.5 | 178 | 0.20% | 0.18% | 0.69% | 0.59% | 2.48% | 2.23% | 5.14% | 4.71% |
| 8 | 16.6 | 22.0 | 184 | 0.17% | 0.15% | 0.73% | 0.66% | 2.10% | 1.83% | 6.04% | 5.62% |
| 9 | 22.0 | 29.2 | 172 | 0.06% | 0.05% | 0.38% | 0.29% | 2.01% | 1.73% | 4.22% | 3.64% |
| 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 9.16.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg*

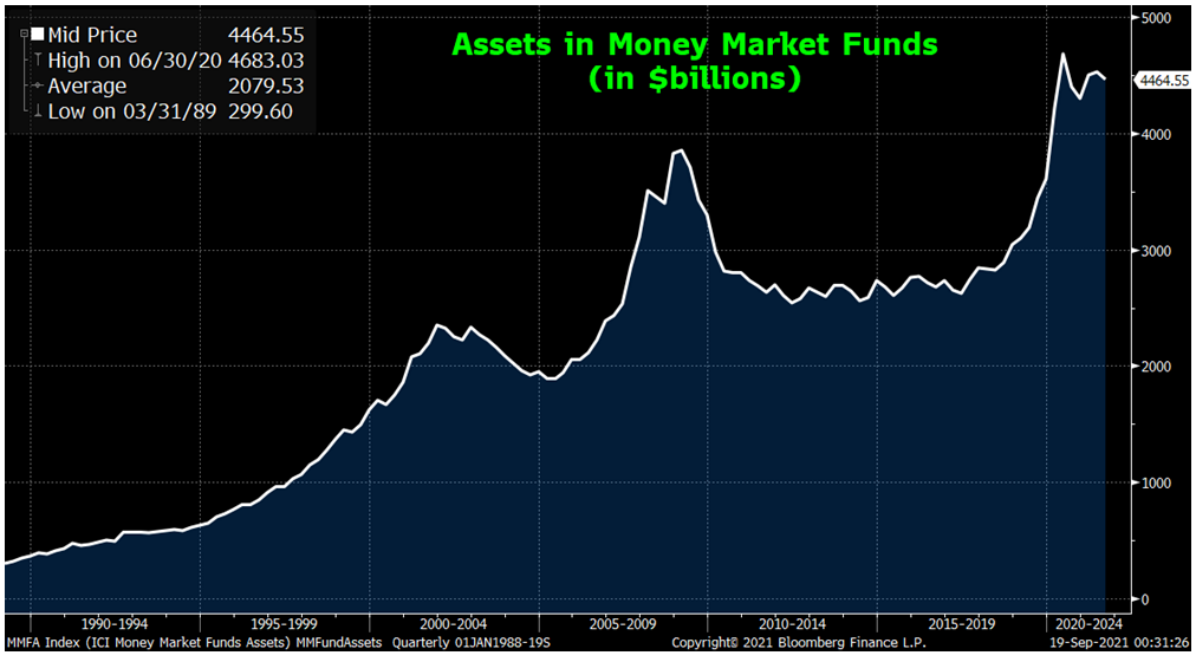
The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey skidding 16.5 points and the Bears jumping 12.1 points is a major positive, as is the minus 16.9-point Bull-Bear spread falling into the lowest decile (best subsequent returns) of the historical figures.

More ammunition in the argument against investor euphoria is the $4.4 trillion hibernating in money market funds,…

THE PRUDENT SPECULATOR

MONEY MARKET FUND ASSETS OVER TIME

Despite yields near zero, total assets in money market funds have seldom been greater...which we think bodes very well for stocks, given previous asset spikes in 2000 following the bursting of the Tech Bubble and in 2008 after the brunt of the Global Financial Crisis damage.

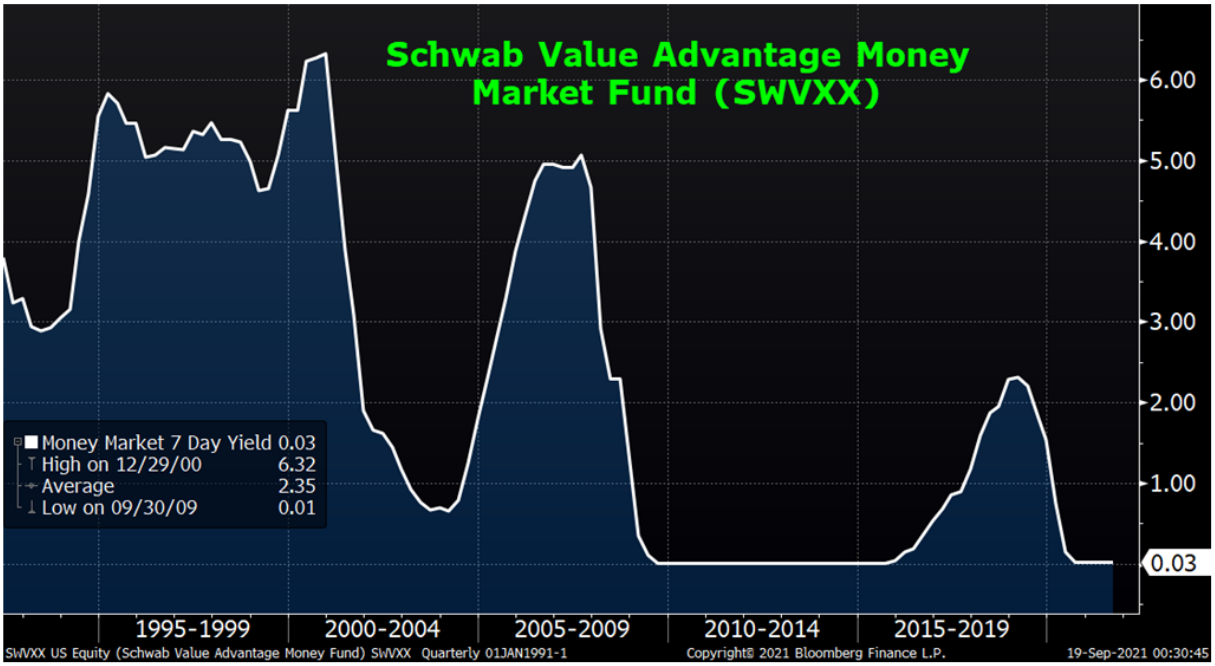



…where yields are not much better than zero,…

THE PRUDENT SPECULATOR

MONEY MARKET FUND YIELDS OVER TIME

The yield on the Schwab Value Advantage Prime Money Market Fund has cratered to 0.03% today, which sharply contrasts to the respective 5.00%+ and 6.00%+ at prior market peaks in 2007 and 2000.




…not to mention the more than $14 trillion wasting away in negative yielding government debt around the world.

Incredibly, investors around the world continue to love government debt, despite losses this year on the price of the bonds to go along with the negative yields. Yes, we understand that the pros can utilize derivatives and leverage to attempt to hedge against the guaranteed loss of principal if the debt is held to maturity but hoping for a greater fool to drive prices higher and yields even lower in the interim seems to us like reward-free risk.


Of course, we understand that there was plenty of talk last week about proposed Congressional tax hikes, so we offer the reminder of what market history has had to say about equity market returns and increases in individual income tax rates,…

## Years With Max U.S. Individual Income Tax Rate Increase

| Year & Change | 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 |
|---|---|---|---|---|---|---|---|---|
| 2013: 39.6% up from 35% | 41.0% | 38.4% | 34.1% | 39.9% | -7.1% | -12.8% | -3.7% | 0.0% |
| 1993: 39.6% up from 31% | 22.9% | 5.7% | 9.9% | 16.9% | 13.2% | 18.2% | 11.2% | 2.9% |
| 1991: 31% up from 28% | 33.8% | 48.3% | 32.6% | 53.3% | 19.9% | 19.3% | 15.5% | 5.6% |
| 1969: 77% up from 75% | -20.9% | -11.5% | -10.8% | -24.9% | -8.1% | -5.1% | -0.7% | 6.6% |
| 1968: 75% up from 70% | 36.3% | 17.5% | 14.3% | 20.7% | 2.6% | -0.3% | 4.5% | 5.2% |
| 1952: 92% up from 91% | 13.9% | 10.5% | 14.5% | 9.9% | 3.5% | 1.2% | 1.6% | 1.7% |
| 1951: 91% up from 84% | 13.0% | 18.9% | 20.6% | 7.1% | -2.7% | -3.9% | 0.4% | 1.5% |
| 1950: 84% up from 82% | 54.2% | 27.2% | 31.3% | 55.8% | 2.1% | 0.1% | 0.7% | 1.2% |
| 1944: 94% up from 88% | 44.0% | 27.9% | 23.6% | 41.8% | 4.7% | 2.8% | 1.8% | 0.3% |
| 1942: 88% up from 81% | 35.6% | 15.9% | 20.2% | 35.6% | 2.6% | 3.2% | 1.9% | 0.3% |
| 1940: 81% up from 79% | -7.2% | -6.5% | -5.1% | -12.2% | 3.4% | 6.1% | 3.0% | 0.0% |
| 1936: 79% up from 63% | 65.0% | 29.8% | 28.7% | 53.5% | 6.7% | 7.5% | 3.1% | 0.2% |
| 1932: 63% up from 25% | 3.2% | -7.2% | -5.2% | 0.0% | 10.8% | 16.8% | 8.8% | 1.0% |
| Arithmetic Average | 25.7% | 16.5% | 16.0% | 22.9% | 4.0% | 4.1% | 3.7% | 2.0% |
| Geometric Average | 23.3% | 15.2% | 15.1% | 20.1% | 3.7% | 3.7% | 3.6% | 2.0% |
| Median | 33.8% | 17.5% | 20.2% | 20.7% | 3.4% | 2.8% | 1.9% | 1.2% |
| Max | 65.0% | 48.3% | 34.1% | 55.8% | 19.9% | 19.3% | 15.5% | 6.6% |
| Min | -20.9% | -11.5% | -10.8% | -24.9% | -8.1% | -12.8% | -3.7% | 0.0% |
| Count | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 |

*Tax Years 1930 through 2000. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar and the Internal Revenue Service.*

…as well as capital gains tax rates,…

While there is plenty of dispersion in the returns and it is difficult to draw conclusions from a data set with only 10 constituents, the historical evidence would argue that there is no need to head for the hills if Washington enacts a capital gains tax hike…and Value stocks, as is usually the case, have been the place to be.

**Years With Max U.S. Long-Term Capital Gain Tax Rate Increase**

| Year & Change | 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 |
|---|---|---|---|---|---|---|---|---|
| 2013: 23.8% up from 15% | 41.0% | 38.4% | 34.1% | 39.9% | -7.1% | -12.8% | -3.7% | 0.0% |
| 1987: 28% up from 20% | -4.3% | -3.1% | 3.4% | -4.6% | -0.3% | -2.7% | 2.9% | 5.5% |
| 1972: 35% up from 32.5% | 12.5% | 10.7% | 16.8% | 2.8% | 7.3% | 5.7% | 5.2% | 3.8% |
| 1971: 32.5% up from 30.2% | 14.5% | 25.7% | 14.9% | 18.0% | 11.0% | 13.2% | 8.7% | 4.4% |
| 1970: 30.2% up from 27.5% | 8.2% | -13.3% | 3.8% | -32.1% | 18.4% | 12.1% | 16.9% | 6.5% |
| 1969: 27.5% up from 26.9% | -20.9% | -11.5% | -10.8% | -24.9% | -8.1% | -5.1% | -0.7% | 6.6% |
| 1968: 26.9% up from 25% | 36.3% | 17.5% | 14.3% | 20.7% | 2.6% | -0.3% | 4.5% | 5.2% |
| 1952: 26% up from 25% | 13.9% | 10.5% | 14.5% | 9.9% | 3.5% | 1.2% | 1.6% | 1.7% |
| 1942: 25% up from 15% | 35.6% | 15.9% | 20.2% | 35.6% | 2.6% | 3.2% | 1.9% | 0.3% |
| 1934: 23.7% up from 12.5% | -4.7% | 23.0% | 6.1% | -7.5% | 13.8% | 10.0% | 9.0% | 0.2% |
| Arithmetic Average | 13.2% | 11.4% | 11.7% | 5.8% | 4.4% | 2.5% | 4.6% | 3.4% |
| Geometric Average | 11.5% | 10.2% | 11.1% | 3.2% | 4.1% | 2.2% | 4.5% | 3.4% |
| Median | 13.2% | 13.3% | 14.4% | 6.4% | 3.1% | 2.2% | 3.7% | 4.1% |
| Max | 41.0% | 38.4% | 34.1% | 39.9% | 18.4% | 13.2% | 16.9% | 6.6% |
| Min | -20.9% | -13.3% | -10.8% | -32.1% | -8.1% | -12.8% | -3.7% | 0.0% |
| Count | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |

*Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.*

…while stocks have performed better across the board, on average, when capital gains rates are higher than when they are lower.

THE PRUDENT SPECULATOR

HIGHER CAPITAL GAINS TAX REGIMES: STOCK TAILWIND & BOND HEADWIND

**Higher Tax Regimes - Max U.S. Long-Term Capital Gains Tax Rate > 23.8%: Annual Returns**

| 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 | 20.2% | 14.3% | 14.6% | 18.0% | 4.3% | 4.0% | 4.5% | 3.9% |
| Geometric Average | 17.7% | 12.2% | 13.3% | 13.5% | 4.1% | 3.7% | 4.3% | 3.9% |
| Median | 19.8% | 14.7% | 14.9% | 15.2% | 2.8% | 2.8% | 2.9% | 3.5% |
| Max | 72.4% | 58.2% | 53.5% | 90.5% | 27.2% | 31.7% | 16.9% | 11.2% |
| Min | -20.9% | -34.2% | -23.6% | -40.0% | -8.1% | -9.2% | -5.1% | 0.3% |
| Count | 49 | 49 | 49 | 49 | 49 | 49 | 49 | 49 |

*Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.*

**Lower Tax Regimes - Max U.S. Long-Term Capital Gains Rate <= 23.8%: Annual Returns**

| 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 | 12.6% | 10.6% | 10.5% | 8.5% | 9.1% | 8.6% | 6.3% | 2.7% |
| Geometric Average | 8.2% | 7.3% | 7.9% | 3.7% | 8.8% | 8.0% | 6.1% | 2.6% |
| Median | 12.9% | 10.3% | 12.5% | 10.3% | 8.8% | 6.2% | 6.5% | 1.0% |
| Max | 126.6% | 93.1% | 69.8% | 73.9% | 42.6% | 40.4% | 29.1% | 14.7% |
| Min | -54.0% | -42.2% | -47.4% | -50.9% | -7.4% | -14.9% | -3.7% | 0.0% |
| Count | 42 | 42 | 42 | 42 | 42 | 42 | 42 | 42 |

*Tax Years 1930 through 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar, Congressional Research Service and the Internal Revenue Service.*

That does not mean that the recent selling in the equity markets won't continue, as the futures are pointing to red ink when trading resumes this week, but we very much like the valuation metrics for our holdings,…

## 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 | 16.0 | 13.7 | 1.2 | 2.5 | 2.2 |
| ValuePlus | 16.9 | 13.8 | 1.5 | 2.4 | 2.0 |
| Dividend Income | 15.0 | 13.3 | 1.0 | 2.4 | 2.7 |
| Focused Dividend Income | 15.6 | 13.6 | 1.2 | 2.5 | 2.5 |
| Focused ValuePlus | 15.5 | 14.4 | 1.6 | 2.8 | 2.0 |
| Small-Mid Dividend Value | 12.9 | 11.5 | 0.8 | 1.7 | 2.4 |
| Russell 3000 | 29.9 | 22.9 | 2.8 | 4.3 | 1.3 |
| Russell 3000 Growth | 42.9 | 32.7 | 5.0 | 12.8 | 0.7 |
| Russell 3000 Value | 22.5 | 17.2 | 1.9 | 2.5 | 1.9 |
| Russell 1000 | 27.7 | 22.5 | 3.0 | 4.5 | 1.3 |
| Russell 1000 Growth | 40.0 | 31.7 | 5.5 | 13.9 | 0.7 |
| Russell 1000 Value | 20.7 | 17.0 | 2.0 | 2.6 | 1.9 |
| S&P 500 Index | 26.5 | 21.9 | 3.1 | 4.6 | 1.3 |
| S&P 500 Growth Index | 34.9 | 28.9 | 5.7 | 10.9 | 0.7 |
| S&P 500 Value Index | 20.6 | 16.9 | 2.0 | 2.7 | 2.1 |
| S&P 500 Pure Value Index | 12.9 | 10.4 | 0.8 | 1.3 | 2.4 |

As of 09.18.21. 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.

…especially given the extraordinarily favorable interest rate climate.

THE PRUDENT SPECULATOR

INTEREST RATES VERY SUPPORTIVE OF STOCKS

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 (3.76% vs. 1.36% 10-Year) and S&P 500 dividend yield of 1.34%.


**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://theprudentspeculator.com/dashboard/. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

We are in the process of posting updated Target Prices to theprudentspeculator.com, while Jason Clark, Chris Quigley and Zack Tart look at several of our companies that announced quarterly earnings last week or that had sufficient news out to warrant a review of their respective Target Prices.

System software firm **Oracle** (ORCL – $86.39) posted adjusted earnings per share of $1.03, versus the $0.97 estimate, in fiscal Q1 2022. ORCL had sales of $9.73 billion, coming up a little short of the $9.77 billion estimate. Total cloud services and license support revenue was $7.37 billion, narrowly trailing the $7.40 billion consensus estimate, thanks to back-office applications Fusion ERP and NetSuite ERP, as well as triple-digit booking growth in infrastructure. Oracle's operating margin was 45%, 2.5% ahead of the analyst consensus.

Founder Larry Ellison said, "Oracle Fusion ERP has over 8,000 cloud customers. NetSuite ERP has over 28,000 cloud application customers. Oracle is the overwhelming market leader in the global cloud ERP market. Oracle Cloud ERP is currently used by many of the largest most complex companies on Earth. This past quarter in Q1, a company I couldn't name until now, a major portion of Bank of America went live on Oracle Fusion ERP, consolidating ledgers in 33 separate countries into 1 global cloud ledger… In the infrastructure part of our cloud business, we continue to innovate in several technical areas. We have made great progress. And then now — and we are now on our way into the big 4 global hyperscalers, and I'll give a list of those in case you don't know. They are Amazon, Microsoft, Oracle and Google. Note the order. I was not the one who sorted that list. Oracle has come a long way in the cloud infrastructure business. Our technology is getting really good and very competitive. And of course, we continue to deliver breakthrough innovations in areas where we have long been strongest like databases."

CEO Safra Catz added, "I remain highly confident that fiscal year '22 revenue growth will accelerate because our fast-growing cloud businesses are becoming a larger portion of our total revenue. I see total revenue growth for fiscal year 2022, which is the one we're in, somewhere in the mid-single digits in constant currency and accelerating. Cloud is fundamentally a more profitable business compared to on-premise; and as we look ahead to next year, we expect company operating margins will be the same or better than pre-pandemic levels. Total revenue for Q2 are expected to grow between 3% to 5% in both USD and constant currency. Cloud service and license support revenue for Q2 are expected to grow more than 5% in both USD and constant currency and then climb higher through the second half of the fiscal year. Non-GAAP EPS for Q2 is expected to grow between 2% and 6% in both USD and constant currency and be between $1.09 and $1.13."

Oracle repurchased 94 million shares for $8 billion in the quarter, bringing the total percentage of shares that Oracle has bought back over the past decade to 46%. In fiscal 2021, ORCL paid out $3.2 billion in dividends and is maintaining the quarterly dividend of $0.32 (which pencils out to a 1.5% yield). The forward P/E is under 18 and the free cash flow yield is 5.1%. Shares slumped 3% on the report, but we remain encouraged by successes despite the pandemic upsetting some of the company's sales process, and we believe that ORCL still has the right leadership team in place as the company adapts to a dynamic cloud business. Shares have gained more than 35% this year including dividends, so the retreat from August 17's $90.95 high hasn't caused us much consternation. We have always liked ORCL's relentless pursuit of the #1 spot in any competition. Our Target Price has been raised to $96.

Tuesday's **Apple** (AAPL – $146.06) Event offered little in the way of surprise. We had been expecting a new Apple Watch, a new iPhone, new AirPods and a refresh of the iPad. Apple launched a redesigned Apple Watch with a new operating system, a refreshed iPad with a faster processor and more memory in the base edition and a refreshed iPhone with an improved camera and longer battery life. There was no mention of an update for AirPods. In our view, the updates were decent, but there was nothing that amazed.

Apple also continues to fight Epic Games in court, with the computer giant cheering a ruling on September 10 from Judge Yvonne Gonzalez Rogers. Highlights in the 185-page ruling included: "Given the trial record, the Court cannot ultimately conclude that Apple is a monopolist under

either federal or state antitrust laws. While the Court finds that Apple enjoys considerable market share of over 55% and extraordinarily high profit margins, these factors alone do not show antitrust conduct. Success is not illegal" and "The Court finds in favor of Apple on all counts except with respect to violation of California's Unfair Competition law (Count Ten) and only partially with respect to its claim for Declaratory Relief. The preliminary injunction previously ordered is terminated." The ruling makes permanent the injunction that forbids Apple from preventing third-party payment options within apps. Epic Games is already planning to appeal, so the battle is unlikely to be over, while Apple general counsel and SVP Katherine Adams called the decision a "huge win for Apple" and the company's App Store.

Of course, the market did not view either event positively, as the stock gave back more than 5% over the past two weeks, following a solid recent run. Consistent with last month's update, Apple may continue to experience supply chain challenges for the foreseeable future, and we expect management will stay on top of any issues that might arise as a result. We continue to be fans of Apple, and considering the lack of "one more thing" at the end of the Apple Event and the nick in the App Store armor, our Target Price has been trimmed by a couple of dollars to $169. We are investing for the long haul, and we are still content with our outsized Apple holding, given the growth opportunities, tremendous ecosystem and balance-sheet strength. We aren't concerned, nor overly enthused, about the latest product updates, even as we understand why short-sighted investors have taken Apple money off the table. It remains one of the largest holdings in our broadly diversified portfolios, which we are comfortable with at present despite its stretched valuation relative to its own history.

**Cisco Systems** (CSCO – $56.85) hosted its annual Investor Day on September 15, which featured CEO Chuck Robbins and included a boost to long-term expectations. CFO Scott Herren clarified, "I want to also say that there's no change to our [near-term] guidance. This is the same guidance we provided on our earnings call a couple of weeks ago. For the full year, 5% to 7% growth on the top line, $3.38 to $3.45 or 5% to 7% growth on earnings per share as well."

On the long-term front, Mr. Herren said, "Our product subscription revenue will grow at 15% to 17%, compound annual growth rate between fiscal '21 and fiscal '25. Our product nonsubscription, 2% to 4% and the services business, 2% to 3%. And again, some of that is moving up into the product line. Some of that is we continue to have services business that is not attached to the product side of our business. In aggregate, what that drives is 5% to 7% compound annual growth rate of Cisco's revenues between the year we just closed in fiscal '21 and where we'll be at the end of fiscal '25. As we pursue that growth, we're going to continue to be disciplined and focus on margins, both on the value creation side of driving our margins through greater software innovation, through the portfolio shift to subscriptions that we've talked about, through the leadership position that we're in now with our silicon and optics business and continuing to be disciplined on the pricing front."

The comments spurred several upgrades from analysts as the top-line growth targets were better than expected, but there remained some concern that CSCO may not be able to accomplish the same growth rates for earnings. We continue to believe IT spending will remain strong, and we think CSCO should benefit as the world emerges from the pandemic. Unfortunately, Cisco is not immune to the pricing and supply chain challenges that are dragging on the industry recently,

and the company thinks those headwinds will stick around at least through the end of this calendar year. While 2020 was a bit of a struggle for CSCO, shares are up nearly 30% this year, which we believe is a result of investor enthusiasm, an inexpensive valuation and solid post-pandemic earnings growth projections. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been bumped to $68.

Computing giant **Microsoft** (MSFT – $299.87) launched a massive $60 billion share buyback program and hiked the quarterly dividend payment by 11% to $0.62 per share. The program has no end date (and included a note that it could be terminated at any time) and would reduce the share count by about 2.7% at current prices. The new plan replaces the existing 2019 plan which had $8.7 billion of the original $40 billion left as of June 30.

The buyback announcement comes at a time when some Democratic party leaders have proposed a tax of 2% on share buybacks. Of course, there's a long way to go in D.C. and it's far from a certainty that there will be any tax on buybacks, which is perhaps why Microsoft went ahead with their announcement. The company remains one of our larger holdings, a position we are comfortable with at present, as it has seen tremendous growth in Azure, complemented by growth in the Xbox gaming platform and business-social network LinkedIn. We think the growth trends are unlikely to slow for the foreseeable future, a result in part of MSFT cementing its position in the tech world during the pandemic. Of course, technology changes quickly and Microsoft can't rest on its laurels, but for now, the company's position looks robust. Our MSFT Target Price has been increased to $323.

Shares of cable and satellite concern **Comcast** (CMCSA – $57.11) shed over 7% last Tuesday as CFO Michael Cavanaugh threw water on seemingly enthusiastic expectations for Q3. On the back of strong broadband subscribers throughout the pandemic, Mr. Cavanaugh said that additions would slow in Q3 versus the same quarter in 2019, but a strong Q4 would make the six-month comparison about 10% better than the pre-pandemic figure. He also pointed out that Comcast had set a high bar for large acquisitions, instead preferring smaller, tuck-in deals, and that fewer visits from international guests (traditionally higher-margin customers) to domestic amusement parks had affected profitability in the near-term.

Producing over half of the firm's total revenue, we like that management intends to continue investing in the quality of its broadband infrastructure as web access has become an indispensable utility for most. COVID continues to affect park operations, and the television landscape continues to evolve, but we think NBC media assets will be able to remain competitive, particularly within sports. CMCSA continues to produce substantial cash flow, backing shareholder returns, and boasts a 14-year weighted average maturity for its debt. Shares trade at 17 times forward earnings estimates and offer a dividend yield of 1.8%. Our Target Price is now $65.

Shares of **Goodyear Tire** (GT – $16.98) gained a bit of traction last week, rebounding some 6.5% on Wednesday as investors digested CFO Darren Wells' remarks at an industry conference. Mr. Wells painted an image similar to many others in our universe: one with supply bottlenecks, raw material demand inflation, labor availability (or the lack thereof) and a strong end consumer. With rising energy and chemical markets, we expect the sudden enthusiasm had some scratching

their heads, but Goodyear (and its new subsidiary Cooper) can't keep up with current demand given depleted inventories over the past year, while other tire inputs like rubber and carbon black actually became cheaper of late.

Happily for shareholders, Goodyear and other industry participants have also done a solid job of adjusting prices to keep pace with certain raw materials costs, something the firm has struggled with in recent years. Mr. Wells explained, "And now as we are most of the way through the third quarter, I think we have continued to see it. In the third quarter, in the U.S., we've seen 8 of the 9 competitors that we track raise prices. And obviously, all of those competitors have raised prices earlier in the year as well, so third quarter continuing the trend. Goodyear has an additional price increase for consumer September 1 of up to 8%. Cooper brand, we've raised prices both on July 1 and on September 1, again, up to 8% in those — in both brands. So, we've continued our journey to make sure that we're addressing raw material costs and getting the full value for our brands. So, I think we're feeling good about that continued ability to recover not only the raw material cost inflation but to help address some of the other cost inflation that we're seeing."

Having taken our lumps holding GT over the past couple of years, we are delighted at the prospect of an inflection point for the business as we continue to appreciate the benefits of merging with a distinguished operator in Cooper. We also note that Electric Vehicles offer a catalyst in the coming years, as their density and torque demand superior technology. Despite the stock's recent bounce, the price remains 18% below the 52-week high seen in June. Our Target Price for GT now resides at $25.

Shares of **Zimmer Biomet** (ZBH – $146.72) recovered from the slide over the past two weeks on news that the joint reconstruction concern had seen an improvement in procedures despite lingering effects from the Delta variant. CFO Suky Upadhyay elaborated, "We still believe our guidance ranges that we provided for the full year implied for the second half are still intact. However, given that pressure that we're seeing in that slower uptake in recovery, it's more likely that work towards the bottom end of that guidance range. But again, that's primarily because of — solely because of the market dynamics that we're seeing around the pandemic. I am encouraged by the commercial execution, the pipeline execution we're seeing across our teams through the third quarter. But again, that's in the backdrop of a very choppy market."

Like the other handful of major musculoskeletal implant providers, the last year has been undeniably tough for Zimmer. But expenses have remained under control, even while the company has continued to invest around 5% of its revenue on research and development. We expect the momentum for surgical robotics will eventually return to benefit the firm's Rosa platform, and implant sales as well given its role as major supplier of the implants used in surgeries. The pending spinoff of dental and spinal businesses will allow ZBH to elevate its focus to that needed for the continued development of some its new tech-forward products like ZBEdge, a suite of integrated digital and robotic technologies. Consolidating in price over the past two years, we find shares attractive, now trading at a discount of more than 50% to peers on a P/E basis, with analysts estimating $9.50 of EPS in 2023. We edged our Target Price for ZBH up to $188.

Maker of engineered bearings and power transmission products, **Timken** (TKR – $67.42) withdrew its full-year financial outlook due to unpredictability in the current environment. The firm said its results have been "impacted by unabating customer and supply chain disruptions and related manufacturing inefficiencies, as well as continued inflationary pressures across the enterprise." It endeavors to mitigate the impact of the supply chain challenges and inflationary pressures through price increases, which are expected to bear fruit in 2022.

We continue to like that revenue is diversified across several end-market sectors with exposure to favorable trends like renewable energy and transportation. Management has taken strides to make the company more resilient throughout the business cycle and after a four-month slide for the stock, TKR appears quite attractive to us with a forward P/E ratio of 12.5 and a dividend yield of 1.8%. Our Target Price is $93.