Market Commentary Monday, October 4, 2021

October 3, 2021

EXECUTIVE SUMMARY

October Newsletter – *TPS 660* to be Emailed This Evening
Newsletter Trades – A Buy and a Sell for TPS Portfolio
Volatility – Downturns are Not Unusual
Selloff Avoidance – Time in the Market Trumps Market Timing
Debt Ceiling History Lesson – Not the First Time it has Spooked Investors
Health News – Positive COVID-19 Developments
Economic Update – More Good News than Bad in the Latest Week
Rising Inflation – Time for Value and Dividends?
Stock News – Updates on MU, JBL, XOM, KSS & INT

Market Review

Work is nearing completion on the October edition of *The Prudent Speculator*. If all goes according to plan, we expect to email *TPS 660* this (Monday) evening. In this issue, we have one new recommendation while our *Graphic Detail* sector looks at the Quest for Income and the merits of dividend paying stocks.

As indicated on our *Sales Alert* of Thursday, September 23, we sold on Monday, September 27, the 807 shares of **Deutsche Post** (DSPGY – $63.15) held in TPS Portfolio at $65.67 and we bought 218 shares of **FedEx** (FDX – $222.53) at $229.171.

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While Value stocks performed much better than Growth, it was another five trading days in the red for equities, with the four-week drop from its September 2 high seeing the S&P 500 suffer its first 5% setback in eleven months.

THE PRUDENT SPECULATOR

5% UPS AND DOWNS (ON A CLOSING PRICE BASIS) SINCE FINANCIAL CRISIS

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
9/2/2021	9/30/2021	-5.06%	BEAR		10/30/2020	9/2/2021	38.75%	BULL
Average Drop		-8.99%			**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 37 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 4357.04.

Obviously, stocks can and do move in both directions, with trips south always something with which investors have had to contend on their way to excellent long-term returns,…

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	306	0.3	9/2/2021	9/30/2021

From 02.20.28 through 9.30.21. 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	10.0%	21.3%
Dividend Paying Stocks	10.8%	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 08.31.21. 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

…with even sizable one-month swoons such as the 4.76% skid that was witnessed in September eclipsed in magnitude 126 times previously over the past 93-plus years.

THE PRUDENT SPECULATOR

SEPTEMBER SWOON IN THE S&P 500

Rare are sizable one-month setbacks of more than 4% in the S&P 500, but the popular market gauge skidded 4.76% on a price basis during September 2021, the 127th worst monthly showing since 1928.

Down > 4.75%

	1920's	1930's	1950's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		4	1	1	2	4	1	3	3	2	2	21
Years Ending in 1		7	3	0	0	0	2	1	4	2	1	19
Years Ending in 2		5	1	0	4	0	1	0	5	1		17
Years Ending in 3		4	1	1	0	1	0	0	0	0		7
Years Ending in 4		2	0	0	0	4	1	0	0	0		7
Years Ending in 5		0	1	0	1	1	0	0	0	1		4
Years Ending in 6		1	3	1	2	0	2	0	0	1		10
Years Ending in 7		6	0	2	1	1	2	1	0	0		13
Years Ending in 8	0	2	3	0	0	2	0	1	5	2		15
Years Ending in 9	3	5	0	0	2	1	0	0	2	1		14
Totals	3	36	13	5	12	14	9	6	19	10	3	127

From 1.31.28 through 09.30.21. Weeks of index price decreases of more than 4.75%. SOURCE: Kovitz using data from Bloomberg

Up > 4.75%

	1920's	1930's	1940's	1950's	1960's	1970's	1980's	1990's	2000's	2010's	2020's	Totals
Years Ending in 0		2	1	1	0	3	3	2	2	4	4	18
Years Ending in 1		4	2	2	1	1	1	2	2	1	1	16
Years Ending in 2		3	3	1	2	0	2	0	2	0		13
Years Ending in 3		5	4	1	3	0	1	0	4	2		20
Years Ending in 4		3	1	6	0	1	1	0	0	0		12
Years Ending in 5		4	3	3	0	3	3	0	0	2		18
Years Ending in 6		3	1	2	1	2	5	2	0	1		17
Years Ending in 7		1	1	0	1	0	4	5	0	0		12
Years Ending in 8	4	5	3	2	2	2	0	6	1	1		26
Years Ending in 9	4	3	1	0	0	2	3	3	5	2		23
Totals	8	33	20	18	10	14	23	20	16	13	5	175

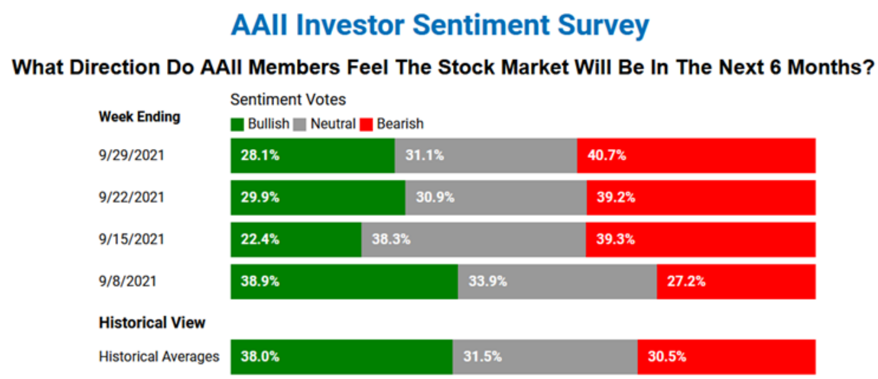
From 1.31.28 through 09.30.21. Months of index price increases of more than 4.75%. SOURCE: Kovitz using data from Bloomberg

Certainly, we respect that these days there are plenty of issues providing consternation for investors, and we even received a query this past week asking if we had any special plans should there be a major event like the Great Depression. Interestingly, the writer was not overly concerned about a Great-Financial-Crisis-type of decline, even as that one produced a loss of more than 50% from peak to trough. Instead, he was wondering if we had strategies to sell before an even worse crash and then somehow buy back near the lows.

It was an interesting question, and one that we have not received in quite some time as usually folks worry about Great Depression II at the depths of the 2007-2009 carnage or the height of the Pandemic last year, as opposed to when stocks are not too far from record highs. Of course, we took the query as a positive from a contrarian perspective, as cataclysmic events generally come when least expected.

THE PRUDENT SPECULATOR

AAII SENTIMENT BUY SIGNAL: LOW BULLISHNESS & HIGH BEARISHNESS



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	909	0.26%	0.23%	1.26%	1.13%	3.66%	3.27%	7.17%	6.43%
ABOVE	8.1	62.9	872	0.17%	0.15%	0.52%	0.43%	1.96%	1.71%	4.55%	4.08%
	Ten Groupings of 1781 Data Points										
1	-54.0	-15.0	182	0.55%	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%	0.83%	3.84%	3.49%	7.12%	6.35%
3	-7.3	-1.4	178	0.31%	0.28%	1.49%	1.39%	3.29%	2.88%	7.24%	6.61%
4	-1.3	3.0	181	0.09%	0.05%	1.10%	1.01%	2.96%	2.60%	6.38%	5.85%
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	159	0.09%	0.07%	0.43%	0.30%	1.60%	1.36%	4.55%	4.07%
7	12.1	16.5	178	0.20%	0.18%	0.71%	0.61%	2.48%	2.23%	5.15%	4.72%
8	16.5	22.0	185	0.17%	0.15%	0.71%	0.64%	2.13%	1.86%	5.99%	5.57%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.05%	1.77%	4.36%	3.78%
10	29.2	62.9	179	0.27%	0.25%	0.31%	0.24%	1.51%	1.28%	2.66%	2.22%

From 07.31.87 through 9.30.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

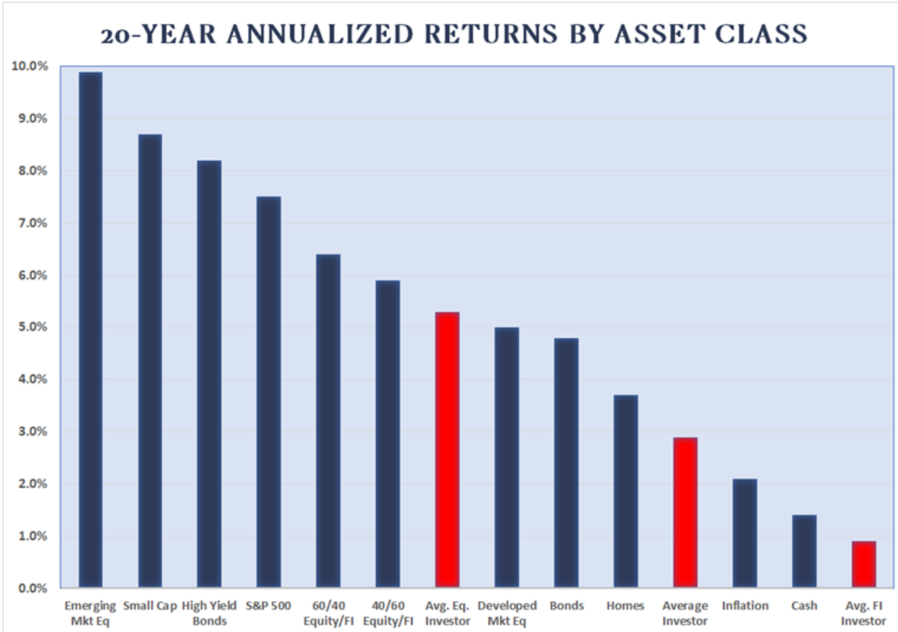
The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey nearly 10 points below normal and the number of Bears more than 10 points above average is a major positive, as is the minus 12.6-point Bull-Bear spread in the second lowest decile.

Recall that then-Treasury Secretary Henry Paulson said in mid-2007 that the global economy was far and away the best he had ever seen in his business lifetime, only for stocks to soon lose more than half of their value before bottoming in March 2009. Same thing with the bursting of the Tech Bubble in 2000 as we then had record low unemployment, we had made it through Y2K and the old and new economy were both booming, yet the Nasdaq Composite index lost two-thirds of its value from the end of 1999 to the end of 2002.

Alas, we (nor anyway else for that matter) have no crystal ball, and those who try to outguess the gyrations of the equity (or fixed income) markets generally end up with lousy long-term returns. The problem is that one has to be right twice, getting out and getting back in, or constant and expensive hedging must be maintained, the cost of which is nearly certain to diminish an overall return. We are adamant in our view that time in the market trumps market timing.

THE PRUDENT SPECULATOR

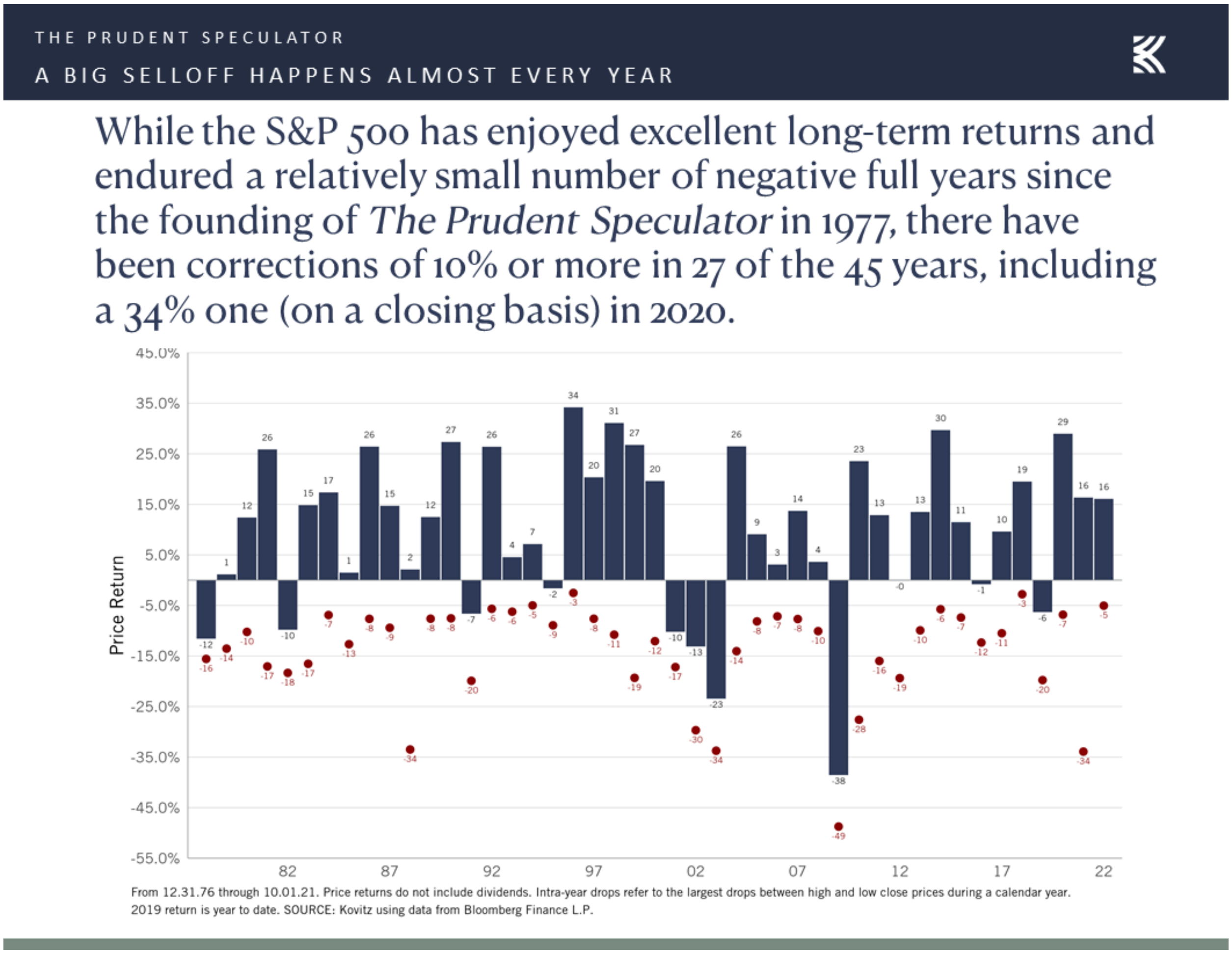
THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT



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.

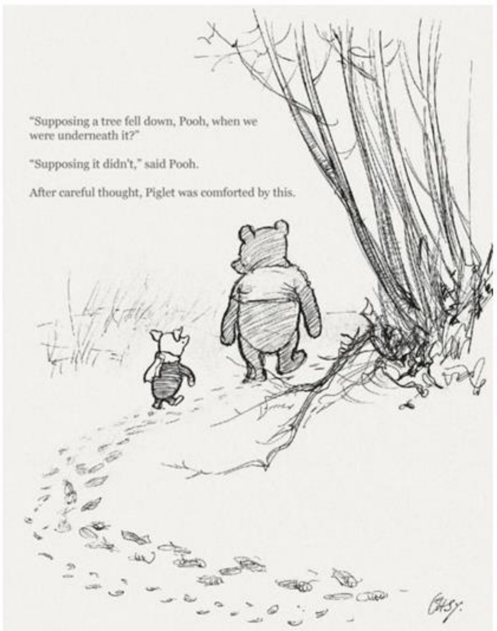
Alas, per findings from research firm DALBAR, emotional decision-making and lousy market timing have cost folks dearly, with the average equity fund investor trailing the S&P 500 by 220 basis points per annum over the last 20 years, and the comparisons even worse for asset allocation and fixed income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

That is not to say that stocks are without risk, as downturns occur every year, with some much more extreme than others, and the only thing we know for sure is that more scary setbacks will occur.



To be sure, it is not easy to keep the faith that modest red ink won't turn into something far worse, but every frightening event thus far has been overcome in the fullness of time.

Capitol Hill has joined Evergrande, COVID-19, geopolitics, inflation, supply chain issues and Fed Tapering as bogeymen spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards...for those who stick with them.



Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	50096%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	28947%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	26006%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	10125%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	9459%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	11078%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	8046%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	6159%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4570%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5676%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4628%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	6125%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	4041%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	4336%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3547%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2591%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1680%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1838%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1278%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	1057%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	958%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	883%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	853%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	762%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	397%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	354%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	254%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	225%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	351%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	376%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	299%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	264%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	544%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5994%**

As of 10.01.21. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

No guarantees that the past is prologue, but we have managed to sidestep precisely zero of the 33 corrections of 10% or more since the inception of *The Prudent Speculator* in 1977, yet we have a terrific long-term track record.

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

S&P 500 Moves (on a Closing Basis) of 10% Without a Comparable Move in the Other Direction

9/12/1978	11/14/1978	-13.55%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	3/23/2020	9/2/2021	102.78%	BULL
Average Drop		-18.35%		**Average Gain**		42.56%	

SOURCE: Kovitz using data from Bloomberg

The five-week February/March 2020 Bear Market brought on by the COVID-19 Pandemic and Great Lockdown is no doubt still fresh on the mind of investors, given that the S&P 500 plunged 33.9%. Of course, stocks have again rebounded, with the tremendous volatility last year representing the 33rd pullback of 10% or more without an intervening 10% recovery since the launch of *The Prudent Speculator* more than 44 years ago. Happily, the returns in the winning periods have dwarfed the losses!

We also believe that far more money has been lost preparing for those corrections than has been lost in the corrections themselves, and that those who share our long-term time horizon are much better off riding through the inevitable ups and downs. Time is indeed on the side of the long-term investor.

THE PRUDENT SPECULATOR

THE LONGER THE HOLD, THE LOWER THE RISK

Given that the most folks are investing for long-term objectives, we remain puzzled that so many continue to think about risk in terms of volatility of one-month returns. After all, while there is no assurance that past is prologue, the odds of losing money in Value Stocks or Dividend Payers is far lower over three-, five- and 10-year periods.

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent Positive
1 Month	713	417	63.1%
3 Months	764	364	67.7%
6 Months	799	326	71.0%
1 Year	817	302	73.0%
2 Year	922	185	83.3%
3 Year	956	139	87.3%
5 Year	958	113	89.4%
7 Year	1011	36	96.6%
10 Year	977	34	96.6%
15 Year	951	0	100.0%
20 Year	891	0	100.0%

GROWTH STOCKS

	Count >0%	Count <=0%	Percent Positive
1 Month	678	452	60.0%
3 Months	740	388	65.6%
6 Months	780	345	69.3%
1 Year	823	296	73.5%
2 Year	886	221	80.0%
3 Year	905	190	82.6%
5 Year	923	148	86.2%
7 Year	978	69	93.4%
10 Year	971	40	96.0%
15 Year	951	0	100.0%
20 Year	891	0	100.0%

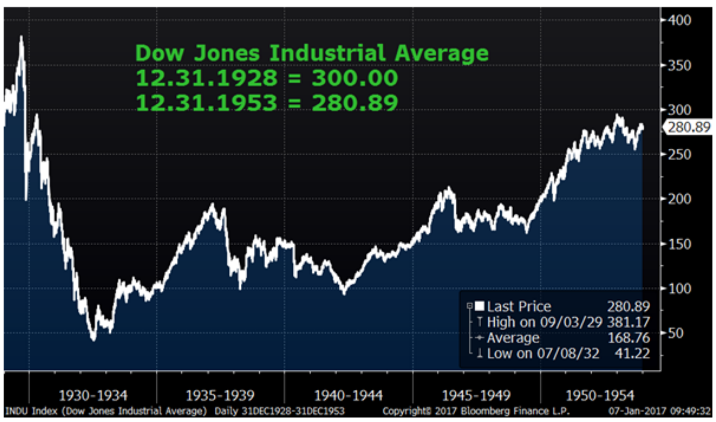
From 07.31.27 through 08.31.21. Value stocks are represented by 50% small value and 50% large value returns rebalanced monthly. Growth stocks are represented by 50% small growth and 50% large growth returns rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

And for those worried about another Great Depression, consider that Value stocks returned 8.32% PER ANNUM over the 25 years that many in the media will argue it took to "get even" from the 1929 Crash.

THE PRUDENT SPECULATOR

STAYING ON COURSE: DOW WENT NOWHERE FROM 1929 to 1954

Illustrating that index values tell only part of the story, the Dow Jones Industrial Average actually lost ground over a 25-year time span from the beginning of 1929 to the beginning of 1954, yet the total return on stocks ranged from 4.02% to 8.32% per annum, with Large Caps annualized return coming in at a respectable 5.90%. The reason for the difference between the price-return-only Dow measure and the actual returns investors might have earned is dividends and their reinvestment.



Annualized Total Returns	
25 Years	
12.31.28 - 12.31.53	
FF Value	8.32%
FF Growth	5.64%
FF Divs	6.03%
FF No Divs	4.02%
FF Large Company	5.90%

Source: Kovitz Investment Group using data from Morningstar and Professors Fama & French

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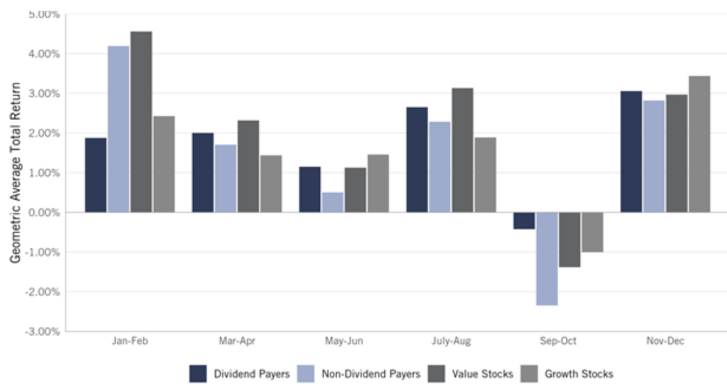
No doubt, our nerves of steel are buoyed by our study of market history. Yes, we realize that September and October have been tough months over the last nine decades, but the rest of the calendar has enjoyed positive returns, on average.

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

And, we understand that drama on Capitol Hill has created plenty of uncertainty, with Treasury Secretary Janet Yellen warning on the repercussions of Congress not voting to raise the debt ceiling by the middle of this month. Ms. Yellen said the U.S. "would likely face a financial crisis and economic recession" if the Treasury can't repay bondholders as debts mature. "It is imperative that Congress swiftly addresses the debt limit. If it does not, America would default for the first time in history."

Certainly, this sounds ominous, but this is not the first time we have had the debt ceiling hanging over our heads. Here is what we wrote back in August 2011:

The debt drama in Washington is no doubt top of mind for almost every investor. Though there were initially hopes for some sort of a 'Grand Plan' to be struck that might see upwards of $4 trillion cut over 10 years from the country's massive deficit, the warring parties are now trying to simply cobble something together to stave off a default prior to the somewhat arbitrary August 2nd deadline for raising the debt ceiling. As if this weren't enough of a concern, the ratings agencies have suggested that the nation's AAA credit rating may be downgraded even if some sort of a decent compromise is reached. Needless to say, few are happy with our supposed 'leaders', no matter which side of the aisle they may reside.

Not surprisingly, the political rancor has most folks on edge with reports surfacing that investors have been pulling cash from money market funds while the equity markets have been wobbling. Certainly, we do not want to make light of the debt issue, but we continue to think it highly unlikely that Uncle Sam will default on his obligations. Yes, there is a good chance that the U.S. credit rating will be downgraded, but we doubt that we will see a big change in the yields on Treasuries. The reason for this is that there is little place else for investors to go as those seeking the safety and yield of a supposedly risk-free (assuming the security is held to maturity) asset are unlikely to bail out of their Treasury investments.

Don't believe me? Take a look at where things stand on the benchmark 10-Year U.S. Treasury as of July 29. Clearly, if investors thought that there was a risk of the government not making good on its interest and principal payments, yields would have spiked significantly higher, rather than touching their low for the year at 2.80%.

And, believe it or not, we've been down this road before. Consider the following commentary:

Republicans in Congress have vowed not to raise the debt ceiling until the President agrees to their plans to trim federal spending. The President has said he will not be blackmailed into agreeing to the GOP program.

The Treasury Secretary has said it is irresponsible for Republicans to hold the debt ceiling hostage in the budget debate because even the risk of a government default on its debt could cause turmoil in financial markets

"For all their loose talk," Mr. Clinton said, "the Congressional leaders know that if they were to allow us to go into default, this would have a severe impact on our economy, on financial markets, and on the interest rates paid by government, business and homeowners."

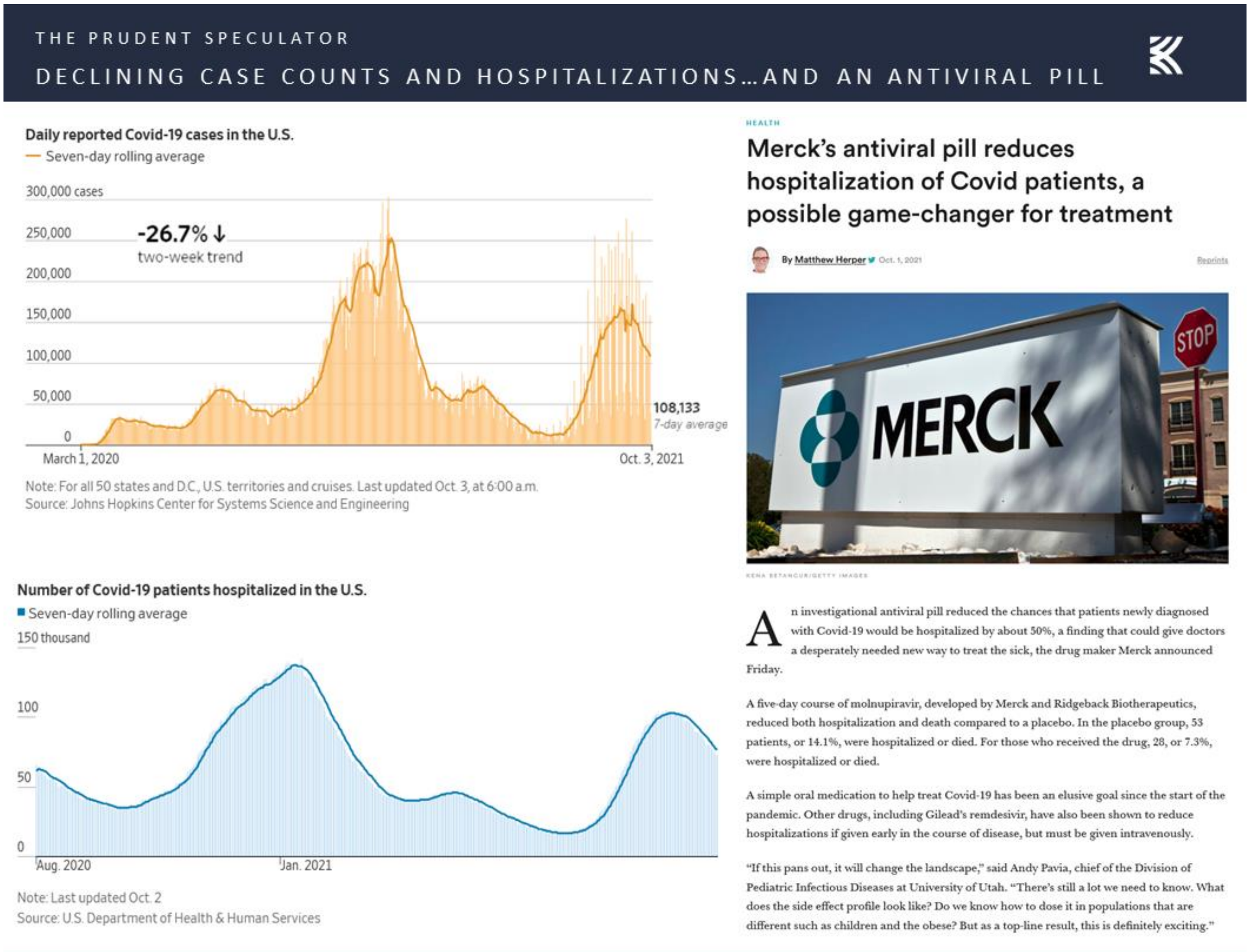
Hopefully, the quote from President Clinton gave away that the time period was November 1995 when the U.S. government had to put non-essential government workers on furlough and suspend non-essential services. While not quite the same situation we are facing today, the debt ceiling was the big sticking point back then and Washington was actually able to reopen for business five days after the initial 'non-essential' measures were taken. Of course, a deal still could not be reached and the government actually shut down completely four weeks later in an event that lasted from December 16, 1995 to January 6, 1996. Treasuries performed very well (yields actually moved lower!) during that turbulent time.

But stocks must have taken it on the chin, right? Well, there were definitely some rocky periods, but equities moved nicely higher with the large-cap S&P 500 advancing more than 15% from August 1995 through February 1996!

We do expect some sort of deal on the debt ceiling to be reached, or for Ms. Yellen to temporarily engage in some additional shuffling of the numbers to keep the government from defaulting on its debt, but we should point out that the S&P 500 has had a 314% total return, or 14.97% per annum, since the July 2011 debt-ceiling scare, and a 1171% total return, or 10.19% per annum since the one in 1995.

*****

Though we understand that the equity futures are pointing to losses as the new trading week begins, we note that news on the COVID-19 front continues to improve, with the announcement of very positive (some say “game changing”) results from a **Merck** (MRK – $81.40) oral antiviral boosting equities on Friday,…



HEALTH

Merck’s antiviral pill reduces hospitalization of Covid patients, a possible game-changer for treatment

By Matthew Herper Oct. 1, 2021 Reprints

An investigational antiviral pill reduced the chances that patients newly diagnosed with Covid-19 would be hospitalized by about 50%, a finding that could give doctors a desperately needed new way to treat the sick, the drug maker Merck announced Friday.

A five-day course of molnupiravir, developed by Merck and Ridgeback Biotherapeutics, reduced both hospitalization and death compared to a placebo. In the placebo group, 53 patients, or 14.1%, were hospitalized or died. For those who received the drug, 28, or 7.3%, were hospitalized or died.

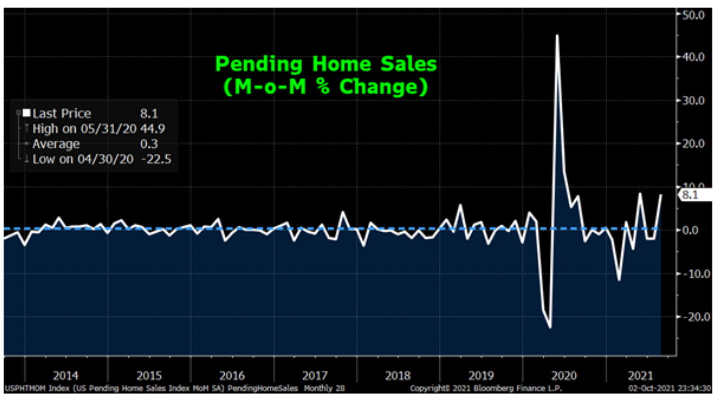
A simple oral medication to help treat Covid-19 has been an elusive goal since the start of the pandemic. Other drugs, including Gilead's remdesivir, have also been shown to reduce hospitalizations if given early in the course of disease, but must be given intravenously.

“If this pans out, it will change the landscape,” said Andy Pavia, chief of the Division of Pediatric Infectious Diseases at University of Utah. “There’s still a lot we need to know. What does the side effect profile look like? Do we know how to dose it in populations that are different such as children and the obese? But as a top-line result, this is definitely exciting.”

…while there were much-better-than-expected economic numbers out last week,…

THE PRUDENT SPECULATOR

IMPROVING ECONOMIC NUMBERS



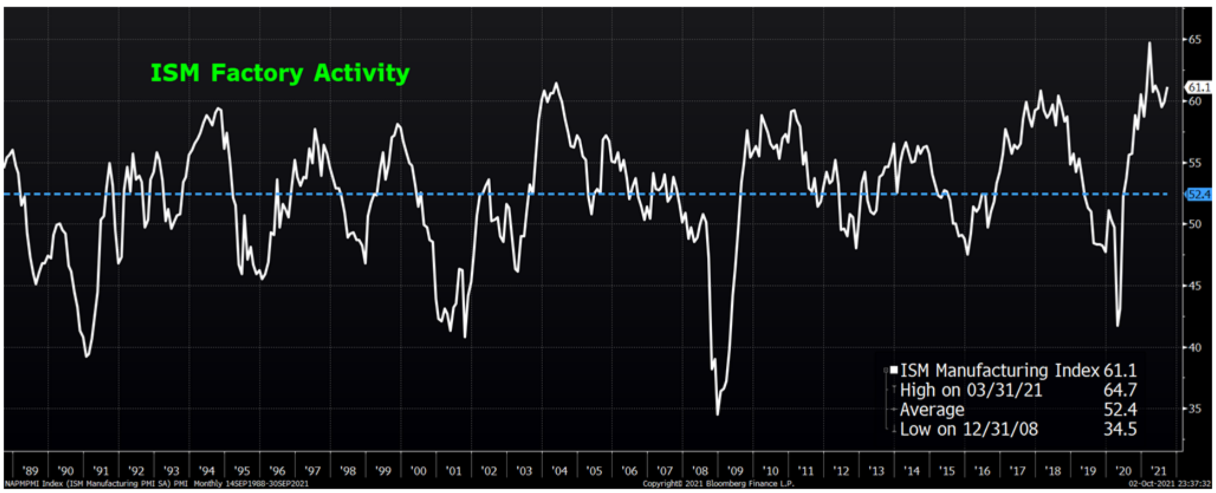
The headline number for durable goods orders in September bounced back with a 1.8% advance, despite ongoing supply shortages, with orders for commercial aircraft leading the charge. Excluding volatile transportation orders, orders rose 0.2%, with business investment still pointing to a solid industrial expansion. Meanwhile, pending home sales surged 8.1% in August, blowing away expectations, even as the year-over-year tally was 8.3% lower.

…including a surprisingly strong ISM Manufacturing number.

THE PRUDENT SPECULATOR

ISM MANUFACTURING JUMPS: 5.1% ANNUALIZED GDP GROWTH

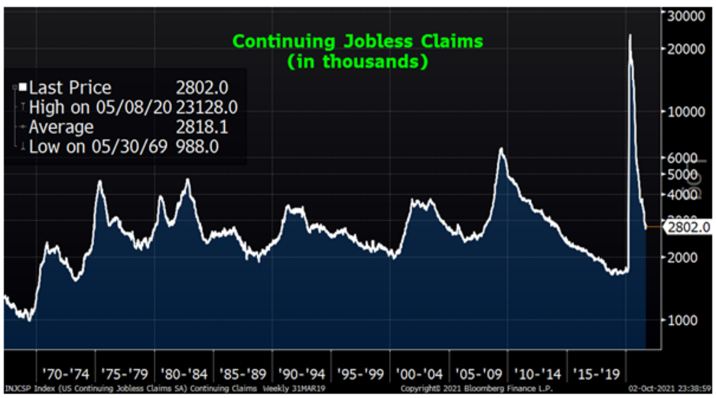
The latest data point on the health of the manufacturing sector came in at a better-than-expected at 61.1 in September, up from a reading of 59.9 in August, and residing at a level well above average for the 30-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 5.1% increase in real gross domestic product (GDP) on an annualized basis."



True, the labor market saw another uptick in jobless claims in the latest week,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS RISE

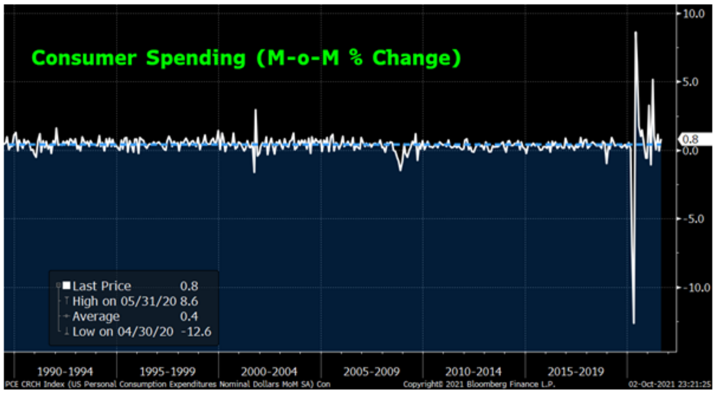


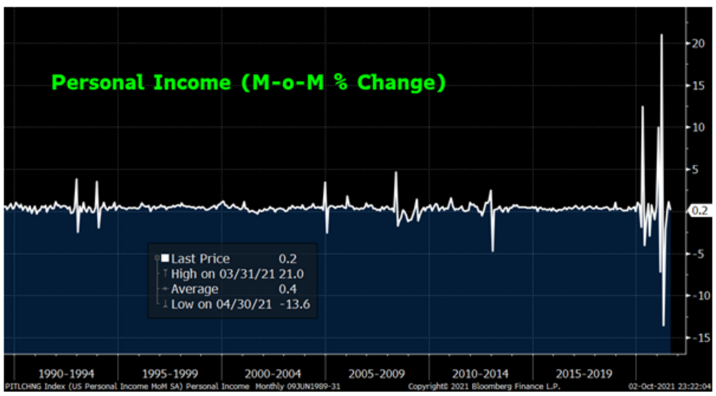
With a big jump in California deserving some of the blame for the increase, new filings for unemployment benefits for the period ended September 25 came in at a seasonally adjusted 362,000, up 11,000 from the week prior and higher than forecast. Continuing claims filed through state programs dipped to 2.80 million, dropping some 18,000 from the prior week, even as businesses continue to struggle to find workers.

…but consumer pocketbooks are still open,…

THE PRUDENT SPECULATOR

CONSUMER SPENDING AND SAVINGS LEVELS RISE



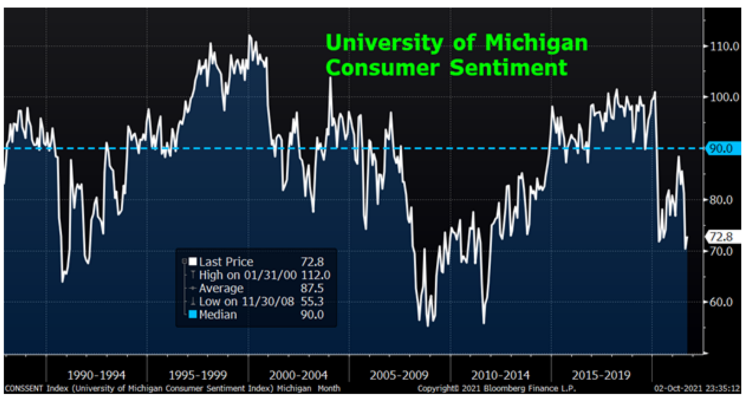


Though elevated inflation deserved some of the credit (blame), consumer spending climbed in August by 0.8%, beating expectations for 0.7% growth, though the July tally was revised down to show a small decline. Shoppers did not have to reach too deep into their savings, as personal incomes, even without a lot of extra support from Uncle Sam, inched up 0.2%. The savings rate came in at 9.4%, down from 27.7% in March, but still well above the pre-pandemic level.

…even as confidence/sentiment on Main Street is mixed.

THE PRUDENT SPECULATOR

MIXED PICTURE ON CONSUMER CONFIDENCE/SENTIMENT



Consumer confidence, per data from the Conference Board, fell in September to a much-weaker-than-expected 109.3, down from a revised 115.2 in August, but well above the historical norm dating back to the 1980s. Meanwhile, the final Univ. of Michigan gauge of consumer sentiment for September came in at 72.8, modestly above estimates and up from a final reading of 71.0 in August, with ebbing Delta-variant concerns helping.

We realize that rising inflation expectations are weighing on some of the economic numbers, and we saw that one of our favorite market watchers, Jeremy Siegel, warn on Friday, "We're headed for some trouble ahead," as he expects the Federal Reserve to "accelerate its taper process." Happily, the Wizard of Wharton was quick to add, "There will be a challenge for the long-duration stocks. The tilt will be towards the value stocks."

Inflation Jumps to 13-Year High

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

By Gwynn Guilford

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

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

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

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

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

May's jump in prices extends a trend that accelerated this spring amid widespread Covid-19 vaccinations, relaxed business restrictions, trillions of dollars in federal pandemic relief programs and ample household savings—all of which have stoked demand for people to spend and travel more.

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

Please turn to page A4

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

While many transitory factors appear to continue to be the cause, the consumer price index has jumped above 5% on a year-over-year basis the past four months...which if history is a guide bodes well for equity prices, especially Value stocks, over the next 3, 6 and 12 months!

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1957

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

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

Inflation Rate >= 5.0% and Ensuing Value/Growth Returns Since 1927

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

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

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1957

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

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

Inflation Rate < 5.0% and Ensuing Value/Growth Returns Since 1927

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

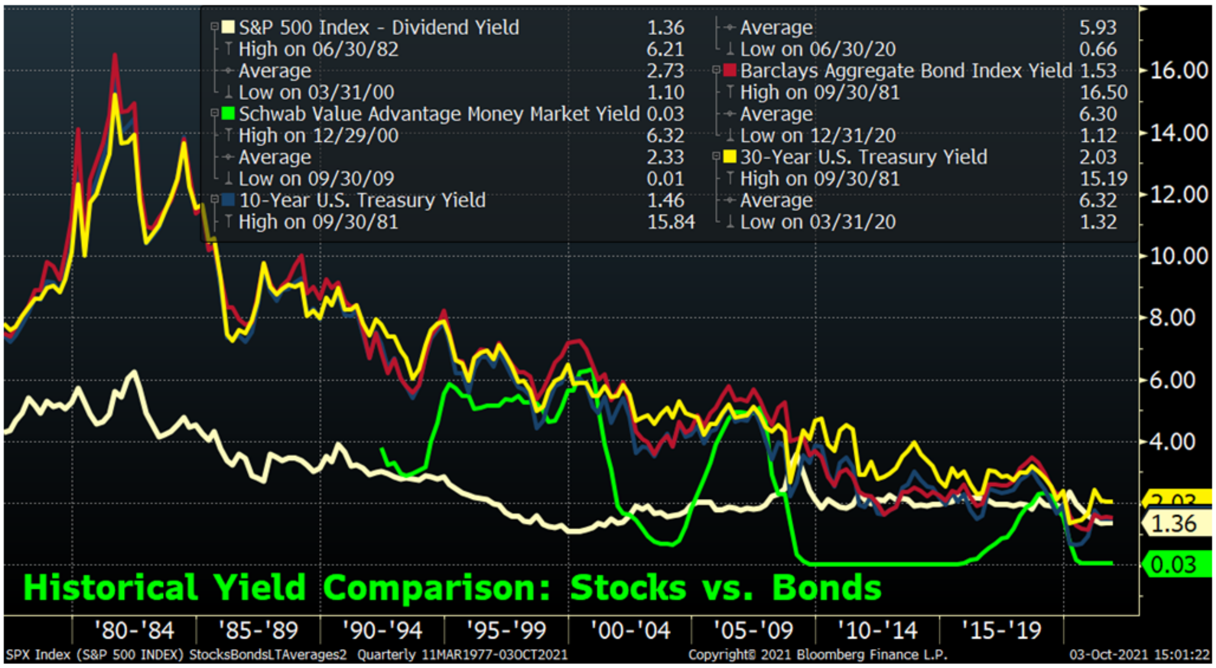
Source: Kovitz using data from Ibbotson Associates 07.31.27 - 03.31.21.

Makes sense to us…and it is in keeping with what the historical evidence suggests, with Mr. Siegel also arguing that dividend-paying stocks are the place to be, especially given the risk associated with holding supposedly safe U.S. Treasuries.

THE PRUDENT SPECULATOR

EQUITY VS. FIXED INCOME YIELDS

Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.36%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 45 times the yield of a "generous" Money Market Fund**!



Mr. Siegel proclaimed, "Yield is scarce and you don't want to lock yourself into long-term government bonds which I think are going to suffer quite dramatically over the next six months…If you have a dividend, firms can raise their prices and historically dividends are inflation protected. They're not as stable, of course, as a government bond. But they have that inflation protection and a positive yield."

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	15.8	13.7	1.2	2.5	2.2
ValuePlus	16.7	13.6	1.5	2.4	2.0
Dividend Income	14.7	13.1	1.0	2.4	2.7
Focused Dividend Income	15.3	13.4	1.2	2.4	2.5
Focused ValuePlus	15.5	14.3	1.6	2.8	2.1
Small-Mid Dividend Value	13.1	11.6	0.8	1.7	2.3
Russell 3000	30.5	22.5	2.7	4.3	1.3
Russell 3000 Growth	43.0	31.8	4.6	12.6	0.7
Russell 3000 Value	23.2	17.2	1.9	2.5	1.9
Russell 1000	27.2	22.1	3.0	4.5	1.3
Russell 1000 Growth	38.9	30.7	5.3	13.5	0.7
Russell 1000 Value	20.6	17.0	2.0	2.6	2.0
S&P 500 Index	26.1	21.4	3.0	4.6	1.4
S&P 500 Growth Index	33.9	27.9	5.6	10.6	0.7
S&P 500 Value Index	20.6	16.9	2.0	2.8	2.1
S&P 500 Pure Value Index	12.7	10.8	0.8	1.3	2.4

As of 10.02.21. 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.

We remain braced for downside volatility, but we continue to like the long-term prospects of our portfolios of what we believe to be undervalued stocks, generally of dividend payers.

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*. Finally, we note that updated Target Prices have been posted to theprudentspeculator.com.

Micron Technology (MU – $70.99) reported fiscal Q4 2021 results that beat the consensus estimates. The memory chip maker had sales of $8.27 billion (vs. $8.23 billion est.) and EPS of $2.42 (vs. $2.34 est.). Micron expects Q1 revenue between $7.45 billion and $7.85 billion and adjusted EPS between $2.00 and $2.20. For comparison, MU had revenue of $5.77 billion in Q1 2021 and $0.78 of EPS. Despite the estimate-beating results, shares skidded 2% as concerns about pricing and weaker-than-expected guidance caused analysts to question their chip industry outlooks.

CEO Sanjay Mehrotra was positive on the quarter, “Fiscal 2021 was a year of many records for Micron. We achieved our highest-ever mobile revenue driven by all-time high managed NAND revenue and MCP mix. Our embedded business had a tremendous record-breaking year, with auto and industrial businesses both at substantial new highs. And our crucial-branded consumer business and overall QLC mix in NAND all hit records in fiscal 2021…The secular demand for memory and storage, combined with Micron’s focused execution and our rock-solid balance sheet, position us well to deliver strong financial performance and create significant shareholder value in fiscal 2022 and beyond. Demonstrating our confidence in our business trajectory, we initiated a quarterly dividend that we aim to grow over time.”

Looking ahead, Mr. Mehrotra said, “Calendar 2021 is shaping up to be a strong year. We expect calendar 2021 industry DRAM bit demand growth to be in the low 20% range and industry NAND bit demand growth to be in the high 30% range. Overall, our preliminary view is that calendar 2022 industry bit demand growth will be consistent with long-term industry bit demand growth CAGRs in the mid to high teens for DRAM and approximately 30% for NAND. We anticipate underlying demand in calendar 2022 to be led by increasing data center server deployments, 5G mobile shipments and continued strength in automotive and industrial markets. Additionally, non-memory supply shortages that are constraining customer bills across various end market segments and that are pushing out some demand should ease throughout 2022, supporting demand growth during the year. Given prudent industry CapEx and very lean supplier inventories, we expect healthy industry supply-demand balance and robust profitability for both DRAM and NAND in the year.”

Mr. Mehrotra continued, “In the near term, our FQ1 bit shipments will decline modestly in both DRAM and NAND from very strong levels in FQ4. Some PC customers are adjusting their memory and storage purchases due to shortages of non-memory components that are needed to complete PC builds. We expect this adjustment at our PC customers to be largely resolved in the coming months. We are also seeing constraints within our supply chain for certain IC components, which will somewhat limit our bit shipments in the near term. Bit shipment growth will resume in the second half of the fiscal year, and we are planning to deliver record revenue with solid profitability in fiscal 2022. Our calendar year ’22 bit shipment growth for DRAM and NAND will be in line with the industry. However, due to the strong shipments in fiscal year ’21 and our below normal current inventory level, for fiscal year ’22, our bit shipment growth for DRAM and NAND will somewhat lag the long-term CAGRs.”

Illustrating management’s faith in the future, the company repurchased 13.9 million shares in Q4 for $1.1 billion, bringing the total spent on share repurchases for the full fiscal year to 15.6 million shares for $1.2 billion. We can see how Micron’s note that some PC manufacturers are slowing orders of the company’s memory components due to PC component shortages was met with consternation, but management expects the issue to resolve itself “in the coming months” and we think the sales are likely to be delayed instead of permanently missed. The initial months of the pandemic compelled many businesses to arm their workforces with mobile devices, often laptop PCs, and it seems with a long-term (or perhaps permanent?) hybrid workforce, the demand trends are unlikely to evaporate. After having a terrific start to the year, shares are now in the red by 5% or so, and we think the lowered expectations for fiscal 2022 allow MU the opportunity to surprise on the upside. Analysts expect MU to earn $9.30 per share in fiscal 2022, and more than $11 in each of fiscal years 2023 and 2024. Even though the business has tended to be lumpy, we are very comfortable with our current positioning, though our Target Price for MU has been trimmed to $118.

Electronic manufacturing services firm **Jabil, Inc.** (JBL – $59.40) earned an adjusted $1.44 per share in Q4 of fiscal 2021 (vs. $1.38 est.), a 47% improvement over the same quarter a year ago. Net revenue for the period was a record $7.41 billion, an increase of 1.5% year-over-year. JBL benefitted from its diversified base of end markets and positive long-term secular trends. The company's network of more than 100 sites with an aggregate 50 million square feet of manufacturing space allows Jabil to accommodate robust customer demand.

CFO Mike Dastoor explained, "In Q4, the teams in both segments successfully managed to navigate an incredibly dynamic supply chain environment. During the quarter, demand continued to be broad-based and robust, but revenue came in slightly lower than expected due to some incremental tightness in the supply chain, mainly in health care, industrial and cloud. This was partly offset by upsides in connected devices and networking and storage. Despite this, our core operating margin performance in the quarter was quite strong coming in at 4.2%, approximately 10 basis points higher than expected, a testament to our team's execution in the quarter, solid cost optimization and our ever more resilient end market portfolio. In Q4, our interest and tax expense also came in better than expected, which when combined with the strong margin performance allowed us to deliver strong core diluted earnings per share in Q4."

Mr. Dastoor continued, "As the convergence of technology in our day-to-day lives accelerates, demand for semiconductors has increased exponentially, which has generated a huge backlog in this industry. Jabil is well positioned to help customers in the semi cap space with end-to-end solutions spanning the front end with design and complex fabrication equipment along with the back end with validation and test solutions. So what do all these trends translate to in terms of Jabil? You can see our revenue growth expectations by end market in the coming fiscal year. In FY '22, in spite of supply chain headwinds, we expect incredibly strong growth in automotive and continued solid growth in health care and packaging, industrial, semi cap, 5G wireless and cloud. Today, both segments are in great shape. We've repositioned our business to serve critical and long life cycle products while also providing the foundation for predictable, yet strong cash flows and margins. For FY '22, we expect both gross profit margins and core operating margins to improve 30 basis points over the prior year, mainly driven by our end market growth and improved mix of business. We also expect the investments to be made in areas such as IT, automation and factory digitization will drive improved optimization across our footprint, which will translate to higher margins. We expect these gains will be slightly offset by continued tightness in the supply chain, especially in the first half of our fiscal year."

Jabil ended Q3 with cash balances near $1.6 billion and $3.2 billion in available credit facilities (plus an additional $2.6 billion of debt outstanding at 3.38% with 6 years to maturity). Although JBL has a very modest dividend yield just shy of 0.6%, the company repurchased 2.9 million shares, bringing the fiscal 2021 repurchase total to 8.8 million shares for $477 million. The company announced a new $1 billion buyback program in July, extending the repurchases through 2023. In fiscal Q1 2022, JBL expects revenue between $8.0 billion and $8.6 billion with EPS between $1.70 and $1.90.

JBL dropped 6% on Wednesday, after the report, which we believe reflected the significant supply chain concerns that have been plaguing companies in all industries recently. While we did not think the move lower made much sense…and the stock rebounded several percent over the next couple of days, shares have risen nearly 40% this year, including the post-earnings drop. We still like the company's strong execution, diverse business (which management has worked consistently to improve since 2016) and very inexpensive valuation. Shares trade for less than 10 times forward earnings and analysts expect EPS growth of at least 6% in the upcoming three years. We also like the exposure JBL gives us to multi-year tailwinds in Cloud, 5G and the electrification of automobiles. Our Target Price has been increased to $72.

Exxon Mobil (XOM – $60.93) jumped over 4% last week as the firm updated expectations with regard to factors impacting its Q3 financial results on tap for release at the end of October. The integrated energy concern expects higher oil and gas prices to benefit earnings to the tune of $700 million to $1.5 billion. Natural gas realizations are particularly in focus as benchmark prices have more than doubled throughout 2021. Stronger downstream margins are also expected to expand, modestly offset by weaker chemical margins.

We continue to favor exposure to the energy stalwart given the large 5.7% dividend yield and diversified operations. We would not be surprised to see strong pricing trends continue heading into 2022 given macroeconomic crosscurrents globally. Meantime, the constructive environment ought to contribute toward management's deleveraging goals. Our Target Price for XOM has been bumped up to $84.

Shares of **Kohl's** (KSS – $48.56) sank 14% on Thursday after a Bank of America analyst issued a double-downgrade to her rating on the retailer, citing "reduced receipts from supply issues." Of course, out of the other side of her mouth came an acknowledgement of the firm's progress within its women's segment, particularly related to the ongoing rollout of Sephora across some 400 locations this year, and that the shares appear "relatively inexpensive."

We were somewhat puzzled by the reaction as discussion of supply constraints and logistical bottlenecks for all companies have been ongoing for several months now. And given the financial strength of Kohl's, we are patient to wait until conditions alleviate. As we mentioned back in May of this year, while it may disappoint short-term investors, we think CEO Michelle Gass and Co. are appropriately focused on 2023 and beyond, having done an exceptional job weathering the pandemic. We believe the government's stimulus efforts helped KSS later in the recovery process, but the company's strong balance sheet carried it through the early days where many other retailers were forced into significant hardship or bankruptcy. We continue to like that KSS boasts one of the strongest balance sheets of its peer group, even if the debt level rose last year, and we are pleased to again collect a dividend ($0.25 per share per quarter; a 2.1% yield). Our Target Price for KSS is now $74 and we were not surprised to see the stock bounce back 3% on Friday.

In a similar vein to the Kohl's reaction, global fuel supplier **World Fuel Services** (INT – $31.24) also received a double downgrade (by another Bank of America analyst) resulting in a 7% price decline on Friday. The analyst cited the negative impact of the U.S. withdrawal from Afghanistan and an outsized impact of the Delta variant on aviation volumes. In our view, the firm's exposure to Afghanistan hardly was a revelation given that the company has been winding down its operations in the country for some time now. Indeed, on a July conference call to discuss its Q2 financial results, CEO Michael Kasbar stated, "As were publicized in media, our government business in Afghanistan is generally coming to an end as most places have now been closed." CFO Ira Birns offered additional color, "The year-over-year decline was driven by a reduction in our government-related activity in Afghanistan as a result of the ongoing military withdrawal, which should be substantially completed by the end of next month as well as declining margins principally related to a more normalized business mix as well as lower physical inventory profitability in our core aviation business when compared to the second quarter of last year. As we look ahead to the third quarter, we expect aviation gross profit to increase sequentially, driven principally by the continuing recovery in North America and international commercial passenger activity."

Of course, had our friend at BofA not issued his downgrade, we might have imagined that INT shares would have jumped on the Merck antiviral pill news, given that the S&P 500 Airline index soared more than 6% on Friday. We acknowledge that the World Fuel's end markets have been far from smooth this year and last and are cognizant of the state of rising prices across most sources of energy. But we continue to note INT's uninterrupted profitability despite the extreme volatility in nearly all things travel over the past year. We find additional solace in the $743 million of cash on the balance sheet, which equates to roughly a year of operating income, with very little debt due before 2024. With earnings expected to once again breach $2.00 in 2022 our Target Price now stands at $45.