

Market Commentary Monday, January 3, 2022

January 3, 2022

EXECUTIVE SUMMARY

January Newsletter – *TPS 663* Coming Tuesday Evening
Citywire RIA – Buckingham Interview
Week in Review – 2021 Closes on a High Note for the Last Five Trading Days
Sentiment – Still Little in the Way of Euphoria
Economy – Favorable Outlook Despite COVID-19
Reasons for Optimism – Rising Profits and Dividends
Market Outlook – Evidence Suggests Value Should be the Place to Be in 2022
Stock News – Updates on DLR, RCL, BIIB, ORCL & MU

Market Review

Happy New Year!

Work is underway on the January edition of *The Prudent Speculator*. If all goes according to Hoyle, *TPS 663* will be emailed Tuesday evening, January 4. This month, we offer our semi-annual review of Sector & Industry Group Weightings as well as Value & Growth Sector Attribution.

Buckingham shares value-based approach with Citywire RIA

Value can be found everywhere, and *The Prudent Speculator* (*TPS*) portfolio has a long history of buying stocks in sectors that other value funds overlook, including technology. Editor John Buckingham recently spoke with *Citywire RIA* editor Alex Rosenberg about the history of our value-based portfolio, investment philosophy and new long-term investment opportunities we see in the current market. Read the full story here: <https://citywireusa.com/registered-investment-advisor/news/inside-the-model-portfolio-of-a-value-hunting-stock-picker/a2375499>

While the final week of the year ended with a bit of a whimper the last two days, it still was a nice five days of trading in a terrific month in a superb year.



Total Returns Matrix									
Last Week	Last Month	2021	Since 10.31.20	Since 7.9.20	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name
0.12	-0.14	-4.71	-1.67	0.28	7.16	4.06	11.17	17.96	Bloomberg Barclays Global-Aggregate Bond
0.16	-0.26	-1.54	-0.44	-0.93	4.76	5.85	15.08	19.16	Bloomberg Barclays U.S. Aggregate Bond
1.08	5.53	20.95	40.26	45.44	102.47	32.71	66.34	105.68	Dow Jones Industrial Average
1.24	5.41	20.82	41.74	48.70	103.91	29.38	62.70	76.45	New York Stock Exchange Composite
-0.33	0.44	2.83	32.28	42.71	114.06	38.45	77.88	97.09	Russell 2000 Growth
0.76	4.08	28.27	65.16	86.78	141.05	34.21	64.27	54.36	Russell 2000 Value
0.21	2.23	14.82	47.75	63.05	128.54	37.74	72.90	76.39	Russell 2000
0.18	2.02	25.85	46.09	52.47	134.41	74.00	136.37	199.82	Russell 3000 Growth
1.36	6.16	25.37	48.49	57.33	107.55	28.97	62.84	68.51	Russell 3000 Value
0.74	3.94	25.66	47.29	54.83	122.20	51.91	99.03	128.45	Russell 3000
1.59	6.20	29.63	54.50	66.27	133.62	46.26	89.03	107.59	S&P 500 Equal Weighted
0.87	4.48	28.71	48.28	54.56	119.03	52.39	100.37	133.41	S&P 500
0.36	2.48	32.01	50.73	57.15	135.89	76.20	131.05	194.41	S&P 500 Growth
1.45	7.04	24.90	45.92	52.03	98.42	26.60	67.02	75.42	S&P 500 Value
0.80	-0.74	29.81	52.27	59.87	147.18	68.31	117.10	163.59	S&P 500 Pure Growth
1.56	6.54	34.63	66.63	85.20	148.78	22.90	54.18	59.74	S&P 500 Pure Value

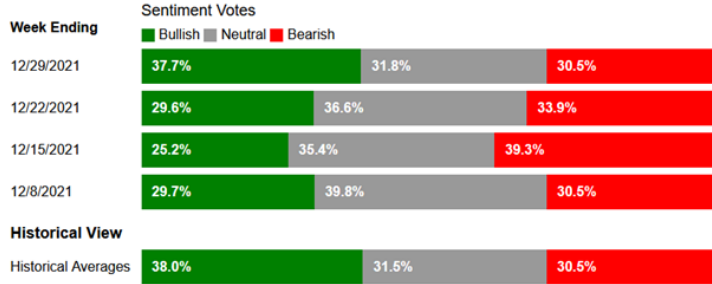
As of 12.31.21. Source Kovitz using data from Bloomberg

Interestingly, and good news from a contrarian perspective, the stellar returns in 2021 have not led to investor euphoria, with the latest Bull-Bear Survey from the American Association of Individual Investors showing slightly fewer Bulls than normal and an average number of Bears.



AAIL Investor Sentiment Survey

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



The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAIL Sentiment Survey rising 8.1 points from the week prior and the number of Bears falling 3.4 points is not a positive. Still, the +7.2 Bull-Bear spread is near average and is in the 5th decile of the weekly figures going back to 1987.

AAIL Bull-Bear Spread

Decile	Low Reading of the	High Reading of the	Count	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Range	Range		Next 1-Week Arithmetic Average TR	Next 1-Week Geometric Average TR	Next 1-Month Arithmetic Average TR	Next 1-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 3-Month Geometric Average TR	Next 6-Month Arithmetic Average TR	Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.00											
BELOW	-54.0	8.0	917	0.27%	0.23%	1.28%	1.15%	3.67%	3.29%	7.11%	6.37%
ABOVE	8.1	62.9	877	0.17%	0.15%	0.50%	0.41%	1.97%	1.71%	4.66%	4.18%
Ten Groupings of 1794 Data Points											
1	-54.0	-15.0	183	0.56%	0.50%	2.14%	1.90%	5.85%	5.30%	10.57%	9.34%
2	-14.9	-7.3	176	0.36%	0.33%	1.03%	0.91%	3.88%	3.53%	7.04%	6.27%
3	-7.3	-1.4	179	0.30%	0.26%	1.54%	1.45%	3.39%	3.00%	7.20%	6.57%
4	-1.4	3.0	183	0.09%	0.06%	1.03%	0.94%	2.86%	2.51%	6.31%	5.78%
5	3.0	8.0	196	0.06%	0.03%	0.68%	0.59%	2.47%	2.22%	4.62%	4.11%
6	8.1	12.0	159	0.10%	0.08%	0.38%	0.26%	1.68%	1.44%	5.04%	4.65%
7	12.0	16.5	180	0.20%	0.18%	0.65%	0.55%	2.41%	2.16%	4.87%	4.35%
8	16.5	22.0	187	0.17%	0.15%	0.73%	0.66%	2.15%	1.88%	6.17%	5.75%
9	22.0	29.1	171	0.09%	0.07%	0.40%	0.32%	2.04%	1.76%	4.43%	3.85%
10	29.1	62.9	180	0.27%	0.25%	0.31%	0.24%	1.51%	1.29%	2.76%	2.33%

From 07.31.87 through 12.30.21. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

No doubt, given that there are still plenty of COVID-19 concerns,...



Europe Fights Record Covid-19 Cases, Looks Ahead to Reopenings

After a subdued New Year's Eve, authorities are seeking to contain the spread of Omicron as schools and workplaces reopen



Parisians seeking Covid-19 tests faced a line on Saturday as tighter regulations were considered by lawmakers. PHOTO: KRISTIAN RILEY/GETTY IMAGES

Covid Live Updates: U.S. Flight Cancellations Top 2,500, New High in a Bruising Week

As North Carolina confronts an Omicron-fueled surge, some counties are running out of tests. A German cruise ship is being held in Lisbon after a virus outbreak among crew members.

Here's what you need to know:

- U.S. flight cancellations hit a record level as Covid thins crews amid severe weather.
- North Carolina faces a surge, but runs into testing issues.
- A crew outbreak halts a German New Year's cruise in Lisbon.
- South Africa bids farewell to Desmond Tutu with a modest funeral further limited by Covid restrictions.
- How high will the U.S. surge go after the holidays? Should you get tested?
- Hopeful signs amid the Omicron wave: The week in science news.

...most are impressed with how well stocks have been performing, though news on the severity of the Omicron variant has remained relatively positive and antiviral therapeutics have now gained regulatory approval.



Omicron hospitalization risk lower than delta, vaccines provide good protection, U.K. study says

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KEY POINTS

- The U.K. Health Security Agency found the risk of hospitalization for people infected with omicron is about a third of that posed by the delta variant.
- The study analyzed more than 528,000 omicron cases and 573,000 delta cases from Nov. 22 through Dec. 26 in England.
- The new U.K. study also found Covid vaccines reduce the risk of hospitalization from omicron across the board, though a booster dose provides the best protection.



A government advert on a bus stop in London encourages people to get their COVID-19 vaccine booster shots, as the Omicron variant of coronavirus spreads across the globe, Dec. 28, 2021.

Yuh Yuhic / SOPA Images | EagleRocks | Getty Images

FDA authorizes Pfizer pill to treat Covid-19 in patients as young as 12

By Matthew Herzer [@](#) Dec. 22, 2021

Reprints



MARK LINDENKAMP

The Food and Drug Administration on Wednesday authorized Paxlovid, a pill developed and made by Pfizer, as a treatment for Covid-19, a significant step in the battle against the SARS-CoV-2 virus.

The drug was authorized for use in people as young as 12 so long as they weigh at least 88 pounds.

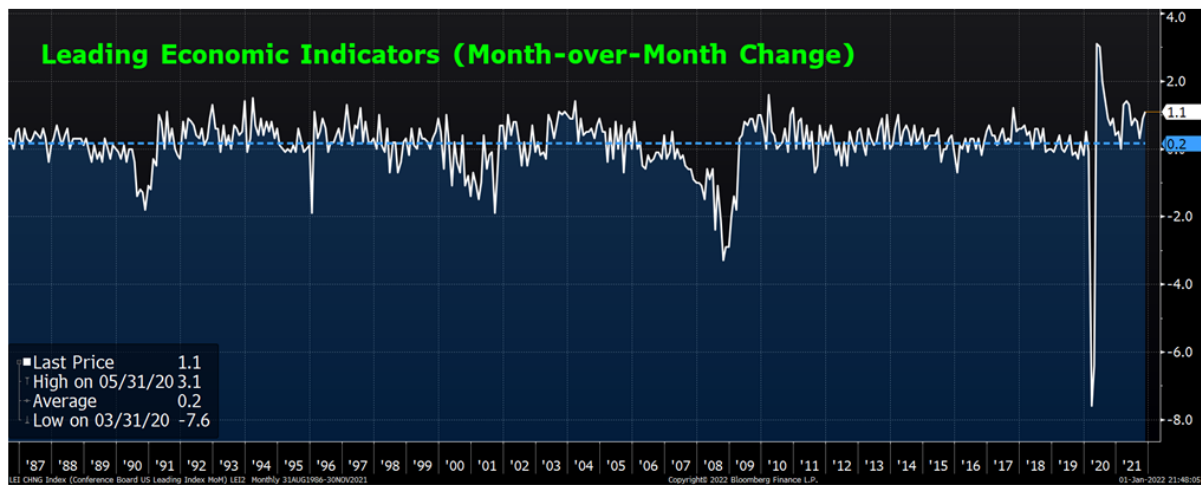
The authorization of an oral antiviral to beat back Covid has been eagerly anticipated because such a medicine could reach large numbers of people infected with the virus and prevent them from becoming seriously ill or hospitalized. Existing medicines, such as monoclonal antibodies, must be given intravenously or as injections.

Still, initial supplies of Paxlovid will be limited. Pfizer has said it expects to produce more than 180,000 courses of the treatment this year. The company said Wednesday it now expects to provide 120 million courses by the end of 2022, up from 80 million previously, thanks in part to new contract manufacturers. Pfizer has contracted with the U.S. government to provide 10 million courses by the end of 2022 at a cost of \$5.29 billion.

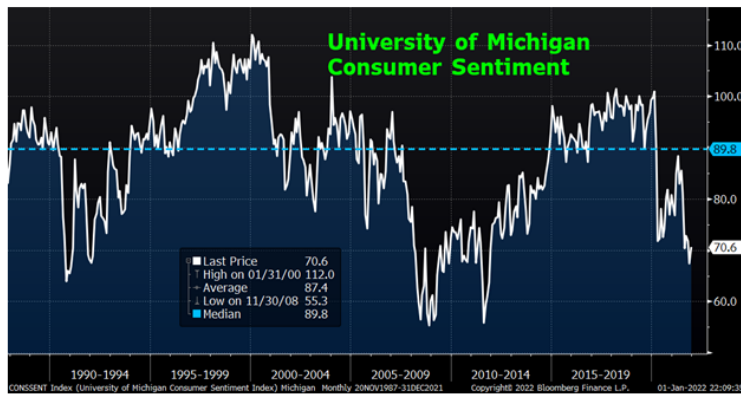
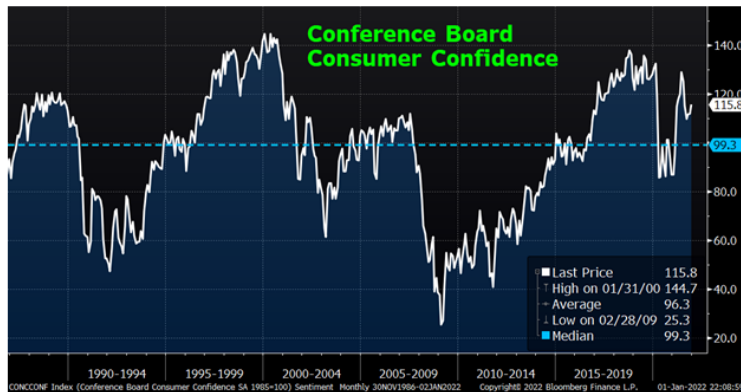
Certainly, we do not want to minimize the virus risks, as we understand that health is more important than wealth, but the latest economic numbers suggest that business conditions are likely to remain favorable,...



“The U.S. LEI rose sharply again in November, suggesting the current economic expansion will continue into the first half of 2022,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “Inflation and continuing supply chain disruptions, as well as a resurgence of COVID-19, pose risks to GDP growth in 2022. Still, the economic impact of these risks may be contained. The Conference Board forecasts real GDP growth to strengthen in Q4 2021 to about 6.5% (annualized rate), before moderating to a still healthy rate of 2.2% in Q1 2022.”

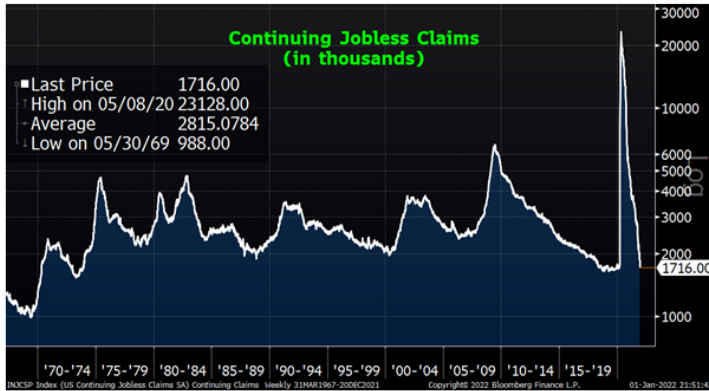
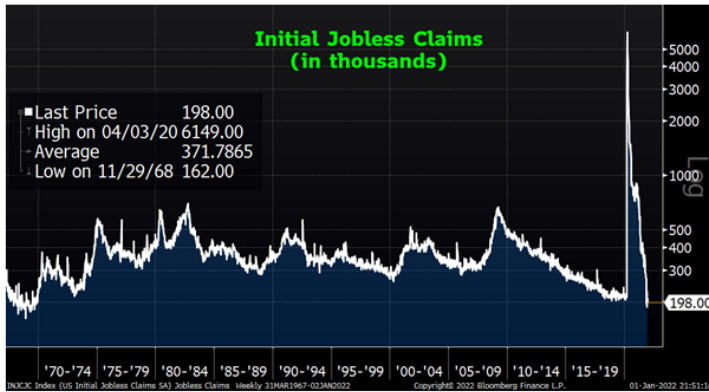


...with the mood on Main Street improving...



Consumer confidence, per data from the Conference Board, rose in December to a better-than-expected 115.8, up from a revised 111.9 in November, and well above the historical norm dating back to the 1980s. Meanwhile, the final Univ. of Michigan gauge of consumer sentiment for December came in at 70.6, modestly above estimates and up 0.2 points from a preliminary reading of 70.4, with an announced increase in Social Security payments in 2022 helping.

...as the jobs market continues to be very strong.



While there is likely some noise in the number due to the Holidays, new filings for unemployment benefits for the period ended December 25 came in at a seasonally adjusted 198,000, near the lowest tally since 1969 when the work force was much smaller. Continuing claims filed through state programs tumbled to 1.72 million, hitting a new pandemic low, as businesses continue to hold on to workers with labor so difficult to obtain.

As such, we think the outlook for corporate profit growth remains robust,...



Q3 2021 earnings reporting season was 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 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	\$57.53	\$220.46
9/30/2022	\$56.86	\$213.38
6/30/2022	\$54.47	\$208.54
3/31/2022	\$51.60	\$206.12
12/31/2021	\$50.45	\$201.93
9/30/2021	\$52.02	\$189.66
ACTUAL		
6/30/2021	\$52.05	\$175.54
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 12.23.21

...which will support continued growth in dividend payouts,...



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 December, *TPS* stocks like Keycorp, Tyson Foods, Snap-On and Pinnacle West all hiked their payouts.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021 (as of 12.23.21)	353	19	4	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.

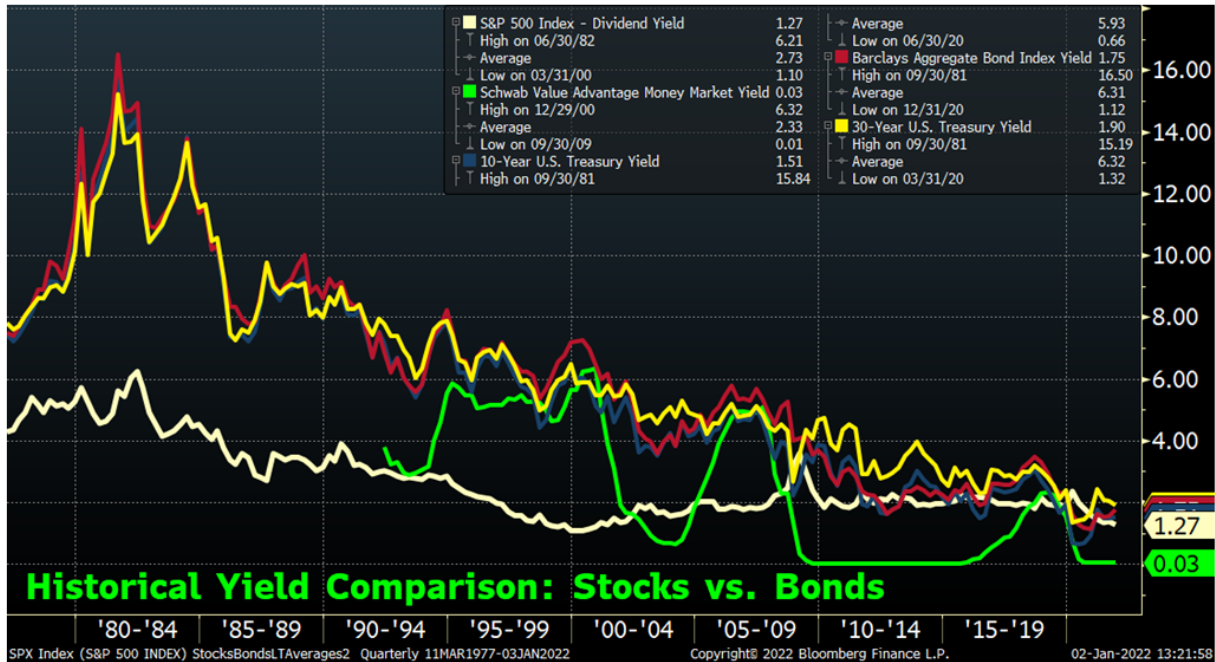
S&P 500 DIVIDENDS PER SHARE	
2022 (Est.)	\$65.51
2021 (Est.)	\$60.54
2020	\$58.95
2019	\$58.69
2018	\$53.86
2017	\$50.47
2016	\$46.73
2015	\$43.49
2014	\$39.44
2013	\$34.99
2012	\$31.25
2011	\$26.43
2010	\$22.73
2009	\$22.41
2008	\$28.39

Source: Bloomberg. As of 12.31.21

...adding to the appeal of equities in the current low-interest-rate environment.



Though stocks are not necessarily a substitute for cash, government or corporate bonds, the payout on the S&P 500 (1.27%) is generous versus the income provided by fixed income. Incredibly, **equities yield not much less than the Barclays Aggregate Bond Index and 42 times the yield of a “generous” Money Market Fund!**



Looking ahead to the new year, as we wrote in our latest Special Report, *Where to Invest in 2022...*

Given that, on average, the S&P 500 has endured 5% pullbacks three times per year, 10% corrections every 11 months and 20% Bear Markets every 3.5 years, we can't argue with the observation that stocks will at some point move south. The only problem is knowing when those downturns will begin and, even more importantly, figuring out when the selloff has ended, especially when the issues that led one to bail out of stocks are usually even more disconcerting when it is time to get back in.



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%	113.3%	995	27	3.4	3/23/2020	12/29/2021
17.5%	68.2%	582	39	2.3	3/23/2020	12/29/2021
15.0%	66.8%	566	45	2.0	3/23/2020	12/29/2021
12.5%	45.0%	340	72	1.3	3/23/2020	12/29/2021
10.0%	35.4%	249	98	0.9	3/23/2020	12/29/2021
7.5%	23.8%	150	157	0.6	9/23/2020	12/29/2021
5.0%	14.8%	73	307	0.3	10/4/2021	12/29/2021

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	10/4/2021

From 02.20.28 through 12.29.21. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as an instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.3%	26.0%
Growth Stocks	10.0%	21.3%
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	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 10.31.21. 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

To be sure, history shows that the only problem with market timing is getting the timing right, as a trader must be right twice. Seeing as how equities have returned 10.0% (Growth stocks) to 13.3% (Value stocks) per annum since 1927, there is a lot to be said for the advice of legendary investor Charlie Munger, “The first rule of compounding is to never interrupt it unnecessarily.”

So, while we are always braced for downside volatility and we respect that the Omicron variant is a new wildcard in the coronavirus battle, we see no reason to alter our optimistic view for equities as we head into 2022. However, we think that investors will need to be much more selective in their holdings in the new year, especially with the Fed Tapering underway and higher inflation readings suggesting that Jerome Powell & Co. will likely raise interest rates two or three times in 2022.



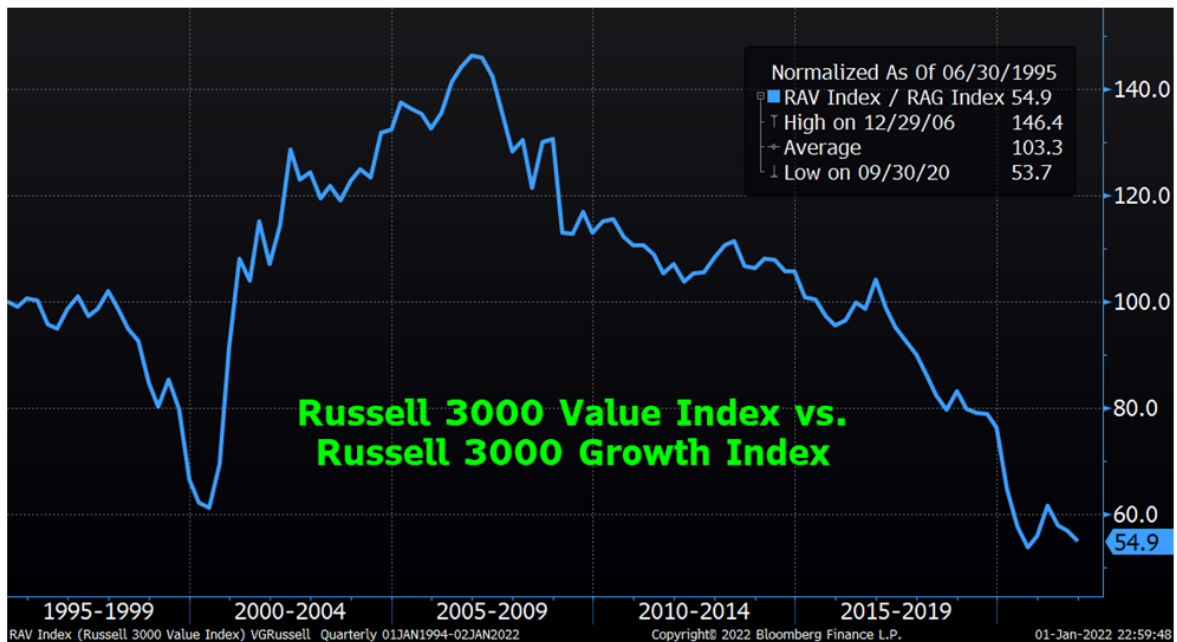
With folks trying to figure out when the Federal Reserve might become less accommodative, pundits have been offering reminders like, “In 2013, the Fed’s previous taper announcement drove markets into a tantrum and led long-term debt to sell off.” Memories become fuzzy with time and the yield on the 10-Year U.S. Treasury did soar from 1.63% on 5.22.13 to 3.02% on 12.31.13, due to fears about Fed tightening, but stocks performed very well in 2013 and 2014, even as the actual tapering of bond purchases began in January 2014. Indeed, **the Russell 3000 Value index returned 50%** and had only two downturns of 5% or greater during the period, just a third of the three-year average.



Not surprisingly, we are partial to the stocks trading for lower valuation metrics that we have long championed. In addition to the valuation gap between Value and Growth being as wide today as it was at the peak of the Tech Bubble,...



Stocks with inexpensive financial metrics have enjoyed very nice returns of late despite the COVID-19 pandemic, but the growthier grass has been greener, driving the R3K Value index relative to the R3K Growth index on a total return basis to near 2000 levels.



...our study of the historical evidence suggests that higher inflation,...



THE WALL STREET JOURNAL WEEKEND

SATURDAY/SUNDAY, DECEMBER 11 - 12, 2021 - VOL. CCLXXVIII NO. 138

U.S. Inflation's Persistent Rise Hits Fastest Pace in 39 Years

By GWYNETH GULLFOSS

U.S. inflation reached a nearly four-decade high in November, as strong consumer demand collided with pandemic-related supply constraints.

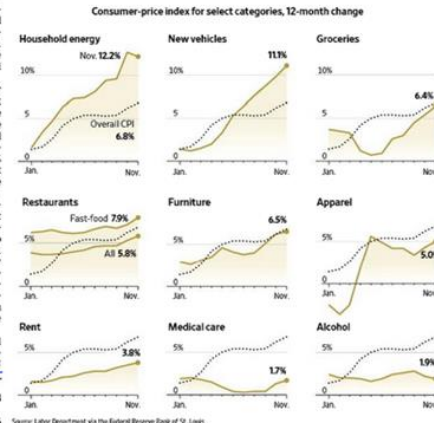
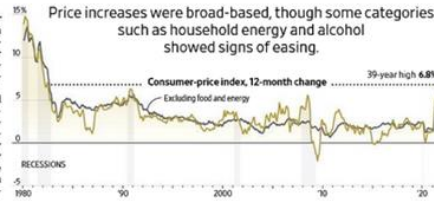
The Labor Department said the consumer-price index—which measures what consumers pay for goods and services—rose 6.8% in November from the same month a year ago. That was the fastest pace since 1982 and the sixth straight month in which inflation topped 5%.

The so-called core price index, which excludes the often-volatile categories of food and energy, climbed 4.9% in November from a year earlier. The highest rate since 1991.

The increase in prices for new vehicles, which came in at 11.1% in November, was the largest on record, as were those for men's apparel and living room, kitchen and dining room furniture. A 7.9% surge in fast-food restaurant prices last month marked the sharpest on record too.

The steady rise in restaurant prices during the past few months is a sign of pass-through from wages into higher prices, economists say. That dynamic is increasingly showing up in other industries. Wages tracked by the Atlanta Fed climbed 4.3% in November, up from 4.1% in October and the highest since 2007.

Some energy prices showed signs of easing—in part because of a return to easing—



◆ Fed under pressure to pare back stimulus... A4
◆ Heard on the Street: Inflation's warm-up act... B16

Source: Labor Department via the Federal Reserve Bank of St. Louis

Inflation Rate >= 6.0% 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	4.8%	2.7%	10.5%	6.4%	24.5%	16.2%
Geometric Average	4.1%	2.1%	9.1%	5.0%	22.0%	13.8%
Median	4.0%	2.1%	6.9%	4.4%	19.3%	13.1%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	84.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	176	176	176	176	176	176

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

Inflation Rate < 6.0% 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	4.1%	3.1%	7.8%	6.0%	15.4%	11.6%
Geometric Average	3.0%	2.4%	5.8%	4.7%	11.2%	8.7%
Median	4.0%	3.6%	8.0%	6.5%	15.4%	12.6%
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	947	947	944	944	938	938

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

Inflation Rate >= 6.0% 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	5.0%	3.4%	10.6%	7.7%	24.4%	19.0%
Geometric Average	4.5%	2.6%	9.6%	6.0%	22.9%	16.1%
Median	4.6%	2.9%	7.5%	5.7%	23.0%	19.6%
Max	39.6%	32.9%	63.0%	60.8%	75.1%	84.2%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-28.0%	-48.0%
Count	112	112	112	112	112	112

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

Inflation Rate < 6.0% 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	3.5%	2.8%	7.1%	5.6%	14.0%	10.7%
Geometric Average	3.1%	2.4%	6.1%	4.7%	12.2%	8.9%
Median	4.0%	3.3%	7.9%	6.2%	16.1%	12.2%
Max	37.8%	32.5%	68.5%	46.3%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-39.9%
Count	653	653	650	650	644	644

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

...rising interest rates,...



Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	17.8%	12.5%	11.2%	15.7%	1.0%	-1.0%	2.2%	3.7%
Geometric Average	13.5%	9.4%	9.1%	10.1%	0.8%	-1.1%	2.1%	3.7%
Median	17.0%	12.2%	14.3%	10.9%	1.3%	-0.2%	1.8%	3.3%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	46	46	46	46	46	46	46	46

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

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

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

...and increased 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 2020. Kovitz using data from Professors Eugene F. Fama and Kenneth R. French, Morningstar and the Internal Revenue Service.

...have previously coincided with superior performance for inexpensive stocks versus their pricier peers.

There are no guarantees that history repeats, but we sleep much better at night, given investor worries about elevated valuations for the major market averages, with the discounted metrics for our portfolios.



CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	15.7	14.1	1.2	2.5	2.1
ValuePlus	16.3	13.9	1.5	2.5	2.0
Dividend Income	14.5	13.4	1.0	2.3	2.6
Focused Dividend Income	15.6	14.3	1.3	2.6	2.4
Focused ValuePlus	15.5	14.8	1.6	2.8	2.0
Small-Mid Dividend Value	12.3	11.4	0.7	1.7	2.3
Russell 3000	29.4	23.7	2.9	4.5	1.2
Russell 3000 Growth	43.0	34.4	5.0	13.2	0.7
Russell 3000 Value	21.7	17.6	1.9	2.6	1.9
Russell 1000	27.0	23.3	3.1	4.7	1.2
Russell 1000 Growth	39.6	33.4	5.6	14.4	0.7
Russell 1000 Value	19.9	17.4	2.0	2.7	1.9
S&P 500 Index	26.2	22.8	3.2	4.9	1.3
S&P 500 Growth Index	32.9	28.8	6.2	10.2	0.6
S&P 500 Value Index	21.4	18.5	2.1	3.1	2.0
S&P 500 Pure Value Index	12.5	11.1	0.8	1.4	2.4

As of 01.01.22. 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.

Believe it or not, TPS Portfolio trades for respective average trailing and next-12-month P/E ratios of 16 and 14, versus 26 and 23, respectively, for the S&P 500, while the dividend yield comparison is 2.1% to 1.3%.

Stock Updates

Keeping in mind that all stocks are rated as a “Buy” until such time as they are a “Sell,” a listing of all current recommendations is available for download via the following link: <https://theprudentpeculator.com/dashboard/>. We also offer the reminder that any sales we make for our newsletter strategies are announced via our *Sales Alerts*.

Jason Clark, Chris Quigley and Zack Tart offer updates on five of our stocks that reported quarterly results recently or had news out worthy of mention.

Data infrastructure REIT **Digital Realty** (DLR – \$176.87) reached an all-time-high this past week, pushing the stock up more than 30% over the last year and bumping the price up against our previously published Target Price. As a result, we wouldn't fault anyone for trimming an overweight position in the name at the current level, given the propensity for management to issue shares after a nice run, an event that usually leads to a short-term drop in the price.

However, we are comfortable maintaining a normal position in the shares as the demand for technology real estate has yet to abate. Further, we continue to think DLR's valuation metrics aren't extreme, with shares trading around 25 times FFO expected in 2022 and funds from operations likely to grow nicely in ensuing years. The company has no major debt due until 2024, while the weighted average maturity is in 2027 with a cost of 2.5%. The dividend yield is now 2.6% and our Target Price has been hiked to \$184.

Shares of **Royal Caribbean** (RCL – \$76.90) have mostly recovered since the first cases of the Omicron variant were reported in late November. And while things are far from back to normal for the cruise industry, management remains upbeat about the next couple of years, even as the CDC is now warning even vaccinated folks not to cruise. Royal says that load factors for sailings in the first half of 2022 remain below historical levels, although sailings for the second half of 2022 continue to be booked within historical ranges; at higher prices with and without Future Cruise Credits.

In a recent press release, Chairman Dick Fain (to be succeeded as CEO by Jason Liberty) stated, "Omicron is having a big short-term impact on everyone, but many observers see this as a major step towards COVID-19 becoming endemic rather than epidemic. We don't like to see even one case, but our experience is a fraction of the comparable statistics of virtually any other comparable location or industry. Few businesses are subject to such intense scrutiny, regulation, and disclosure requirements by so many authorities, and we welcome that scrutiny because of our commitment to safety. We intend to maintain our goal of delivering the safest vacation on land or sea and will constantly adjust our procedures to accomplish this even in the face of Omicron's amazing transmissibility."

Having long been fans of the cruising industry, we note that cruise operators were forced to issue debt and stock to stay afloat throughout the pandemic, so we continue to keep a watchful eye on Royal Caribbean. We acknowledge that COVID cases on cruise ships remain elevated, with 5000 reported between Dec. 15 and Dec. 29. Nevertheless, we continue to think the populous will value experiences well into the future, with cruising a compelling value for many, so we are OK continuing to hold our RCL for the time being. Our Target Price is \$104.

Shares of **Biogen** (BIIB – \$239.92) spiked some 9% last Wednesday on a report by the *Korea Economic Daily Global Edition* that Samsung was interested in acquiring the neuro-focused biotech. But by the following morning, the gain was mostly erased with Samsung's release of a regulatory filing stating that the report was "not true," though it had suggested earlier in 2021 that further expansion into biopharmaceuticals would be a priority in the next 3 years. Biogen management made no material comment.

While no actual deal appears likely, the rumored \$42 billion price tag was only about 20% higher than the current stock price. The recent announcement that Biogen would cut the price for Aduhelm adds uncertainty to the future of its effort to treat Alzheimer's Disease, but the firm is expected to generate over \$3 billion of free cash flow in each of the next few years, so we think the stock would be very attractive to a potential acquirer, especially as there are also over 30 drugs currently in its pipeline. Historically exceptionally volatile, the shares change hand at under 13 times expected 2022 EPS. Our Target Price for BIIB is \$380.

Investors seemed displeased with **Oracle's** (ORCL – \$87.21) purchase of Cerner before the Christmas holiday, given the 16% skid in the share price since the middle of December. Oracle reached an agreement with Cerner, a digital information systems provider for medical applications, to purchase the company for \$95 per share in cash, or approximately \$28.3 billion.

“Working together, Cerner and Oracle have the capacity to transform healthcare delivery by providing medical professionals with better information—enabling them to make better treatment decisions resulting in better patient outcomes,” said Larry Ellison, Chairman and Chief Technology Officer, Oracle. “With this acquisition, Oracle’s corporate mission expands to assume the responsibility to provide our overworked medical professionals with a new generation of easier-to-use digital tools that enable access to information via a hands-free voice interface to secure cloud applications. This new generation of medical information systems promises to lower the administrative workload burdening our medical professionals, improve patient privacy and outcomes, and lower overall healthcare costs.”

The company expects the deal to be immediately accretive to ORCL’s earnings and should “contribute substantially more to earnings” after the first fiscal year. ORCL believes it brings solutions to run Cerner’s core operations, while Cerner offers four decades of experience modernizing health records, improving the caregiver experience and improving workflows. For fiscal 2022, the analyst consensus EPS estimate actually increased to \$4.81 (from \$4.70 a month ago) and for fiscal 2023, the consensus rose to \$5.23 from \$5.14. Interestingly, under certain circumstances Cerner will owe a termination fee of \$950 million to ORCL. We think this makes it a win-win for ORCL. If the deal is completed, earnings are immediately boosted, or if the transaction falls through, ORCL gets a \$950 million one-time payday for the trouble. Our Target Price for our current ORCL stake is \$111, but as is the custom, we will avoid making adjustments to our long-term projections until we have more certainty that the deal will close.

Micron Technology (MU – \$93.15) reported fiscal Q1 2022 results that beat the consensus estimates. The memory chip maker had sales of \$7.69 billion (vs. \$7.68 billion est.) and EPS of \$2.16 (vs. \$2.12 est.). Micron expects Q1 revenue between \$7.3 billion and \$7.7 billion and adjusted EPS between \$1.85 and \$2.05. For comparison, MU had revenue of \$6.24 billion in Q2 2021 and \$0.98 of EPS. Shares have soared nearly 15% since the pre-Christmas release but concerns about the Xi’an plant closure (due to a COVID outbreak) hindered performance in the last week of the year. The company said of the situation in Xi’an, “The city’s closure has reduced Micron’s team member and contractor workforce at our Xi’an site, resulting in some impact to output levels of our DRAM assembly and test operations there. We are working with suppliers operating in this region that face similar challenges. We are also working with local government officials to identify solutions that will enable us to minimize impact of the situation and maintain operations at the site safely. We are tapping our global supply chain, including our subcontractor partners, to help service our customers for these DRAM products. We project that these efforts will allow us to meet most of our customer demand, however there may be some near-term delays as we activate our network.”

CEO Sanjay Mehrotra was positive on the business environment, “Demand for memory and storage is broad, extending from the data center to the intelligent edge and to a growing diversity of user devices. Memory and storage revenue has outpaced the rest of the semiconductor

industry over the last 2 decades, and we expect this trend to continue for years to come, thanks to AI, 5G and EV adoption. In addition, the build-out of immersive virtual worlds often referred to as the Metaverse will offer even more opportunity due to the intensive use of significant memory and storage in these applications.”

Looking ahead, Mr. Mehrotra said, “Our view of calendar 2021 and calendar 2022 industry bit demand and supply growth is largely unchanged from last quarter. We expect calendar 2021 DRAM industry bit demand growth to be in the low 20% range and industry NAND bit demand growth to be in the high 30% range. We expect calendar 2022 industry bit demand growth to be in the mid- to high teens for DRAM and approximately 30% for NAND, in line with our view of the long-term bit demand growth CAGRs for each. We anticipate underlying demand in calendar 2022 to be led by increasing volume of data center server deployments, 5G mobile shipments and continued strength in automotive and industrial markets. Non-memory supply shortages have constrained customer builds and pushed out some demand across many end markets. While these shortages may cause some variability to our demand, we expect them to ease through 2022, supporting memory and storage demand growth.”

Mr. Mehrotra continued, “We recently announced our intent to invest more than \$150 billion globally over the next decade in leading-edge memory manufacturing and R&D. As part of our commitment to investing in R&D, we announced plans to establish a state-of-the-art memory design center in Atlanta. These announcements reflect our confidence in persistent long-term demand growth for memory and storage and our ability to generate returns on these investments. We look forward to working with governments around the world, including in the U.S., as we consider sites to support future expansion.”

Micron repurchased 3.6 million shares in Q1 for \$260 million, and MU “remains committed to returning more than 50% of the cross-cycle free cash flow through a combination of dividends and buybacks.” Illustrating the merits of patience, the beginning three quarters of 2021 were bumpy for MU, but shares soared between October and December bringing the YTD gain to around 25%. Analysts expect MU to earn \$9 per share in fiscal 2022, and more than \$11.50 in each of fiscal years 2023 and 2024. Even though supply and demand dynamics are likely to impact MU in ways outside of the company’s control, we think that the overarching industry themes are broadly positive and we are comfortable with our long-term-oriented positioning. Our Target Price for MU has been boosted to \$126.

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