Market Commentary Monday, January 31, 2022

January 31, 2022

EXECUTIVE SUMMARY

February Newsletter – *TPS 664* Coming Wednesday Evening, February 2
Playing the Percentages – The Longer the Hold, the Greater the Odds of Success
Volatility – Even 10% Corrections Not Unusual
Market of Stocks – Value Down Much Less than Growth Thus Far in 2022
Fed Tightening – Historical Evidence on Rate Hikes & Equity Returns
Jerome H. Powell – Fed Chair's Economic Comments
IMF – 4.0% U.S. GDP Growth Hardly "Grim"
Reasons for Optimism – Healthy Profits and Dividends; Reasonable Valuations
Super Contrarian Buy Signal – AAII Bull-Bear Spread Drops to Minus 29.8
Stock News – Updates on AAPL. MSFT, GLW, IBM, STX, INTC, VZ, JNPR, SYF, ADM, JNJ, LMT & KSS

Market Review

Work is underway on the February edition of *The Prudent Speculator*. If all goes according to plan, *TPS 664* will be sent out via email on Wednesday evening, February 2. This month, we will have at least two brand-new recommendations, while our *Graphic Detail* looks at the Calendar and Valuation Factors Over Time.

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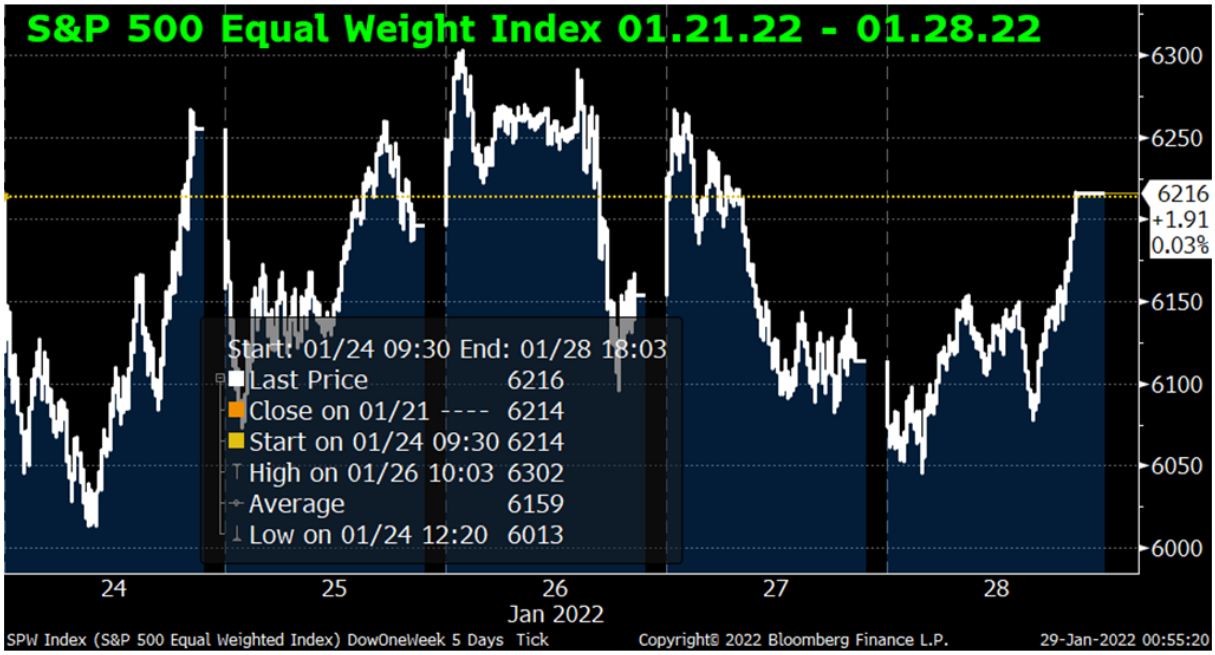
With equities enduring violent swings again last week, those who watch the markets on a tick-by-tick basis likely polished off a few packages of antacids, while folks who look at their portfolios once a week may have shrugged their shoulders at the extraordinarily five days of trading in which the average stock was very close to breakeven – up only a smidge.

THE PRUDENT SPECULATOR

S&P 500 EQUAL WGT: GYRATIONS GALORE BUT ALMOST NO WEEKLY CHANGE

The trading week just ended was about as volatile as they come, with massive dips and rebounds one day and rallies and plunges another, yet if one looked through a weekly lens at the average stock in the S&P 500, volatility was virtual non-existent, given almost no change for the Equal Weight index..



Certainly, we think it far better for investor mental and financial health to NOT focus on short-term fluctuations, even as we respect that in today's 24/7 news world that is easier said than done. Alas, the financial media is compelled to explain and rationalize every movement it would seem, even as prices often change direction before the ink is dry on their stories.

BUSINESS & FINANCE

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S&P 4356.45 ▼ 1.22% S&P FIN ▲ 0.47% S&P IT ▼ 2.34% DJ TRANS ▼ 1.69% WSJ $ IDX ▲ 0.03% 2-YR TREAS. yield 1.025% NIKKEI (Midday) 27021.68 ▼ 0.40% See more at WSJ.com/Markets

Investors Pile Into Gold for Safety

By Haruka Singh

One asset holding up through the early 2022 market turmoil: gold.

Rising geopolitical tensions in Europe and a slide in major U.S. stock indexes has sent investors rushing into the haven metal.

On Friday, they poured a record net $1.6 billion into SPDR Gold Shares, the world's largest physically backed gold exchange-traded fund, according to Dow Jones Market Data.

When individuals buy shares of an ETF backed by physical gold, they are buying a stake in a trust. The ETF tracks the metal's price since the asset held by that trust is metal.

Demand for gold climbed after tensions between Russia and Ukraine escalated last week. Investors often flock to

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Investors often flock to gold during geopolitical turbulence, expecting it to hold value even when other assets struggle.

Gold futures price, past six months

Turmoil Fuels Gold Demand

Continued from page B1

Gold prices have traded in a relatively narrow range in 2022, hovering below their November highs of $1,875.20 a troy ounce and 2020 record of $2,051.50.

Bets the Federal Reserve will act aggressively to curb inflation helped pull the metal back from those levels, reducing the appeal of gold as protection against rising prices. Expectations for rate increases also have sent U.S. government bond yields higher, making them more competitive with gold, which pays no regular income.

Most actively traded gold futures ended Tuesday up $10.80, or 0.6%, to $1852.50.

Analysts said recent declines in the stock market also could support gold, with the S&P 500 and Nasdaq Composite recently wrapping up their worst week since March 2020. Investors also have battered other speculative bets, including bitcoin, which some cryptocurrency enthusiasts have touted as another form of inflation protection.

"Gold has re-emerged as a safe haven and portfolio tail hedge given repricing and selloff in equities and crypto assets," said Ankush Doshi, head of commodities for North America at Citi Research.

One potential new source of pressure for gold prices is this week's Fed meeting, which investors plan to watch closely for clues on the path of interest-rate increases. Yields on two-year Treasury bonds, which typically climb when investors expect tighter central bank policy, have lately risen to their highest levels since February 2020.

Some investors said expectations for Fed policy tightening were already weighing on gold, helping push it down to a 3.5% loss in 2021, its largest percentage decline since 2015.

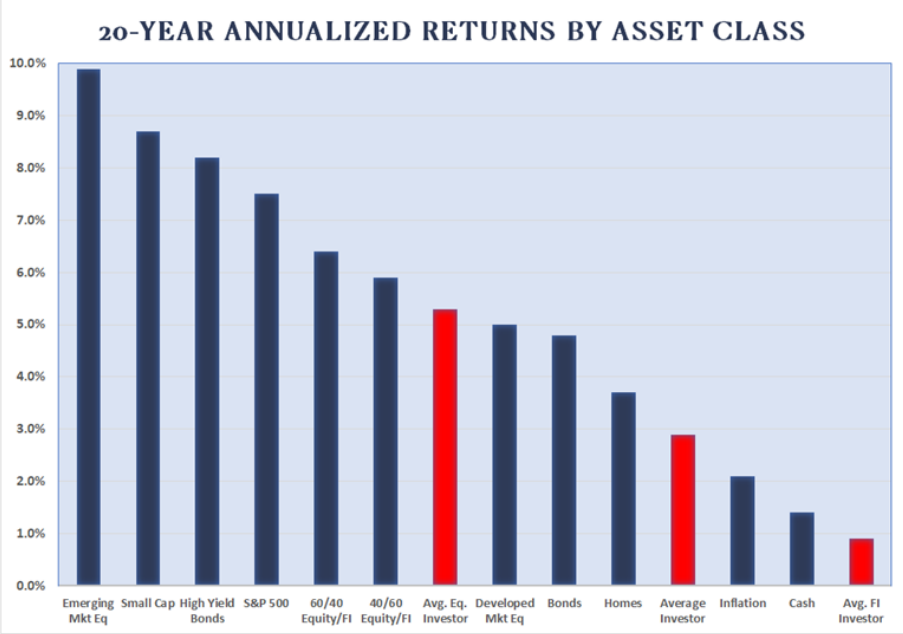
"Gold was the problem child last year, but it might be the star student this year," said Robert Minter, director of ETF investment strategy at abrdn, which offers the Aberdeen Standard Physical Gold Shares ETF with net assets around $1.4 billion as of Dec. 31.

Fascinating that the 1.26.22 edition of *The Wall Street Journal* concluded that investors were piling into gold for safety, yet the precious yellow lost 3% in the ensuing three days even as the financial markets did not become any less volatile.

Sadly, many feel compelled to act on the news of the moment…which is why plenty of folks end up with mediocre or worse long-term returns,…

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.

…as they forget that in the stock market, at least, history shows that the chance of success increases the longer one stays in the game.

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 >0%
1 Month	716	418	63.1%
3 Months	767	365	67.8%
6 Months	802	327	71.0%
1 Year	821	302	73.1%
2 Year	926	185	83.3%
3 Year	960	139	87.4%
5 Year	962	113	89.5%
7 Year	1015	36	96.6%
10 Year	981	34	96.7%
15 Year	955	0	100.0%
20 Year	895	0	100.0%

DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	720	414	63.5%
3 Months	789	343	69.7%
6 Months	818	311	72.5%
1 Year	854	269	76.0%
2 Year	948	163	85.3%
3 Year	941	158	85.6%
5 Year	989	86	92.0%
7 Year	1009	42	96.0%
10 Year	980	35	96.6%
15 Year	955	0	100.0%
20 Year	895	0	100.0%

From 07.31.27 through 12.31.21. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

That does not mean that downturns are easily stomached, with the S&P 500 off 10% from its January 3 high on an intraday basis at some point every day last week. Should another correction of that magnitude on a closing basis occur, it would not be unusual as we have lived through 33 drops of 10% of greater without an intervening rebound of 10% since the launch of *The Prudent Speculator* nearly 45 years ago,…

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	1/3/2022	114.38%	BULL
Average Drop		**-18.35%**		**Average Gain**		**42.90%**	

SOURCE: Kovitz using data from Bloomberg

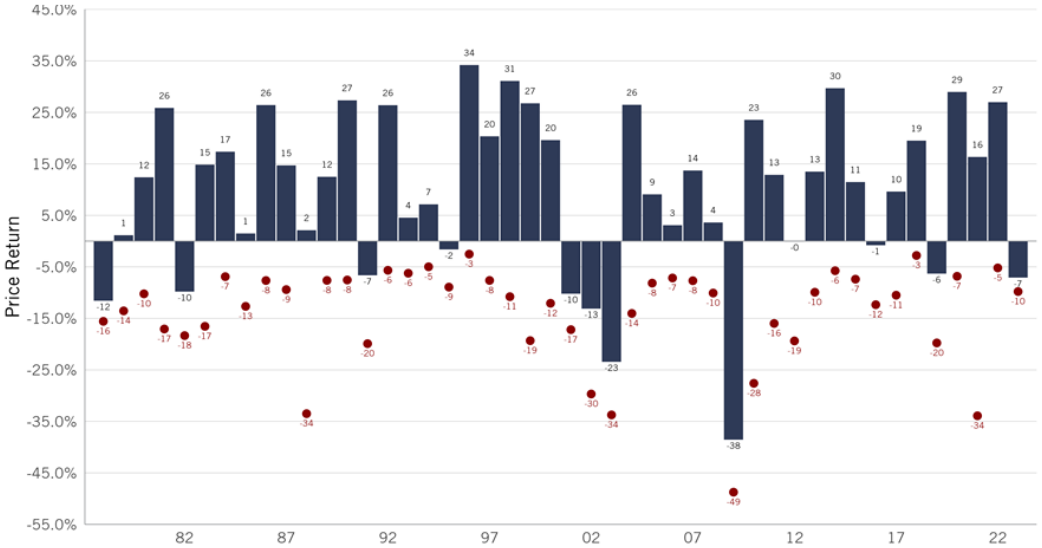
Trading has been rocky of late, to say the least, with many stocks enduring their worst performance since the five-week 2020 Bear Market brought on by the COVID-19 Pandemic. While the S&P 500 was in correction territory for a while each day last week, the index did not close any of those days with a 10% decline from the January 3, 2022 high. Of course, a 10% setback would not be unusual, given that we have had 33 of them since the launch of *The Prudent Speculator* more than 44 years ago. Happily, there have also been 33 advances of 10% or greater, with the average gain during those periods in the green dwarfing the average loss.

…while disconcerting selloffs take place every year.

THE PRUDENT SPECULATOR

A BIG SELLOFF HAPPENS ALMOST EVERY YEAR

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



From 12.31.76 through 01.28.22. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2019 return is year to date. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Happily, this trip south has not been as bad for the kinds of stocks that we have long championed, as Value has outperformed by a sizable margin of late,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

While the latest week ended on a high note, the performance gap between Value and Growth remained wide, with the plunge in high-flying momentum investor favorites this year bringing back memories of the Value victory when the Tech Bubble burst back in 2000.

Total Returns Matrix

MARKET OF STOCKS

2000	2001	Last Week	YTD	Last 12 Months	Since 10.31.20	Since 3.23.20	Last 2 Years	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	1.34	-4.36	15.58	34.14	93.64	25.99	51.14	93.26	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	0.03	-4.36	14.27	35.56	95.01	23.91	46.50	65.19	New York Stock Exchange Composite	NYA Index
-22.43	-9.23	-1.28	-16.96	-20.00	9.84	77.75	13.10	35.27	60.68	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	-0.69	-7.61	11.12	52.59	122.71	27.66	38.68	42.16	Russell 2000 Value	RU20VATR Index
-3.02	2.49	-0.97	-12.30	-5.63	29.57	100.44	21.48	38.71	53.09	Russell 2000	RU20INTR Index
-11.75	-20.15	-0.85	-16.42	-6.79	12.01	85.76	23.91	58.52	99.11	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33	-0.04	-5.92	18.88	44.07	120.22	27.05	48.66	56.68	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	-0.31	-9.68	9.19	31.92	109.06	28.25	55.73	77.34	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	1.00	-11.59	9.45	29.16	107.25	48.64	96.82	155.16	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33	0.15	-3.71	19.32	42.98	99.85	24.99	47.62	60.20	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	0.58	-7.87	14.15	35.70	104.72	37.91	72.67	105.24	Russell 3000	RU30INTR Index
9.64	-0.39	0.06	-5.84	20.83	45.48	119.98	37.44	65.09	90.56	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	0.79	-6.93	18.68	38.00	103.84	39.71	76.63	111.72	S&P 500	SPXT Index
-22.08	-12.73	1.13	-10.81	15.93	34.43	110.39	51.72	96.84	152.89	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	0.45	-2.62	21.38	42.09	93.22	24.30	52.63	68.77	S&P 500 Value	SPTRSVX Index
-8.29	-17.75	-0.84	-16.32	7.27	27.43	106.85	36.71	70.08	112.83	S&P 500 Pure Growth	SPTRXPG Index
13.16	10.87	0.88	1.17	29.97	68.58	151.70	29.60	41.92	59.16	S&P 500 Pure Value	SPTRXPV Index

As of 01.28.22. Source Kovitz using data from Bloomberg

…with more than a few former Main Street investor darlings suffering massive losses in a very short amount of time.

THE PRUDENT SPECULATOR

"WE HAVE TO BE MORE DISCIPLINED THAN THE REST"- WARREN BUFFETT

November 2, 2021

the Prudent Speculator

Established in March 1977 - 20 Enterprise, Suite 305 - Aliso Viejo, California 92656 - 800.258.7786

Social media powerhouse Facebook on Oct. 28 announced plans to change its corporate name to Meta Platforms...which ignited a 26% after-hours gain that day in Meta Materials, a small Nova Scotian specialty chemicals company. Never mind that Meta Materials has nothing to do with Facebook, with the financial press quick to point out that folks were buying the wrong stock. Of course, that seemingly important fact did not slow interest in the Canadian company as the stock price jumped 6% in trading on Nov. 1 with more than 19 million shares changing hands.

Lest readers think this is a once in a lifetime occurrence, the Facebook disclosure led to a 30% three-day increase in assets in the Roundhill Ball Metaverse ETF, which had the good fortune of owning the META ticker symbol. Now to be fair, the Roundhill ETF boasts a 6% stake in Meta Platforms amongst its 43 holdings and Mark Zuckerberg and Co. have brought the word Metaverse into the public eye, but cases of mistaken identity happen more often that one might imagine. In fact, a research paper published in 2019 by Vadim Balashov and Andrei Nikiforov found 254 instances of companies that saw fluctuations in their stock price related to events at another company with a similar name or stock ticker.

Long-time followers of our publication will remember modem maker Zoom Telephonics, which thanks to its name and ZOOM ticker symbol skyrocketed not once (on Xoom.com confusion in 1999), not twice (on Zoom Video confusion in 2019), but three times (on ZoomInfo confusion in 2020). The company has since changed its name and ticker symbol, so there won't be a fourth resurrection of the essentially worthless shares...or so we think!

No doubt, some see the rise of the Meta doppelgangers as a red flag that the equity markets are too euphoric and due for a major correction. Of course, as the father of Value investing Benjamin Graham proclaimed years ago, "Most of the time common stocks are subject to irrational and excessive price fluctuations in both directions as the consequence of the ingrained tendency of most people to speculate or gamble... to give way to hope, fear and greed."

We would not be surprised to see the major market averages suffer a sizable setback, especially as 10% corrections occur every 11 months on average, but we believe that we are prudently investing in businesses that trade for reasonable, if not inexpensive, valuation metrics. To be sure, we are playing in an entirely different sandbox, with many market players more excited by "meme" stocks, SPACs and more than a few profitless companies.

> "In a free society, one does not have to deal with those who are irrational. One is free to avoid them."
>
> — Ayn Rand

Of course, given that one of our core tenets is to seek to avoid permanent impairment of investment capital, we sleep much better at night knowing that TPS Portfolio sports respective trailing and forward P/E ratios of 15.5 and 13.7, compared to 25.9 and 21.9 for the S&P 500. And we like that it also owns a price to sales ratio of 1.2 (vs. 3.1 for the S&P). Further, given low yields on fixed income and no yields on cash, we can't help but be excited by TPS Portfolio's dividend yield of 2.2% (vs. 1.3% for the S&P).

Anything can happen as we go forward, but vaccines and therapeutics are working in the COVID-19 battle, and supply-chain challenges are likely to sort themselves out. The outlook for U.S. and global GDP growth is robust as we head into 2022, with continued healthy corporate profit growth likely to boost the kind of stocks that we have long championed. And, contrary to popular belief, whether it is periods of rising interest rates, higher inflation rates, Fed Tapering, or increased capital gains, corporate or personal income taxes, equities have performed well, on average, with Value historically leading the way.

True, we have been a bit frustrated by disappointing market reactions to seemingly terrific Q3 earnings reports from a few of our companies, but we are patient, given our three-to-five-year time horizon. As Warren Buffett says, "If a business does well, the stock eventually follows!"

Editor, Principal, Portfolio Manager
Kovitz

Celebrating more than 40 Years of Patience, Selection and Diversification

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-39.43	-68.30	Meta Materials Inc	MMAT Equity
-18.91	-19.65	Roundhill Ball Metaverse ETF	META Equity
-44.63	-57.42	AMC Entertainment Holdings Inc	AMC Equity
-34.02	-46.65	GameStop Corp	GME Equity
-28.32	-63.60	Robinhood Markets Inc	HOOD Equity
-20.81	-29.41	VanEck Social Sentiment ETF	BUZZ Equity
-27.15	-42.71	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-4.36	-2.61	Dow Jones Industrial Average TR	DJITR Index
-4.36	-3.14	New York Stock Exchange Composite Index	NYA Index
-16.96	-20.67	Russell 2000 Total Return Growth Index	RU20GRTR Index
-7.61	-7.13	Russell 2000 Total Return Value Index	RU20VATR Index
-12.30	-14.08	Russell 2000 Total Return Index	RU20INTR Index
-16.42	-19.67	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-5.92	-3.05	Russell Midcap Value Index Total Return	RUMCVATR Index
-9.68	-9.27	Russell Midcap Index Total Return	RUMCINTR Index
-11.59	-9.56	Russell 3000 Total Return Growth Index	RU30GRTR Index
-3.71	-1.37	Russell 3000 Total Return Value Index	RU30VATR Index
-7.87	-5.70	Russell 3000 Total Return Index	RU30INTR Index
-5.84	-2.54	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-6.93	-3.44	S&P 500 Total Return Index	SPXT Index
-10.81	-7.31	S&P 500 Growth Total Return Index	SPTRSGX Index
-2.62	0.84	S&P 500 Value Total Return Index	SPTRSVX Index

As of 01.28.22. Source: Kovitz using data from Bloomberg.

We are not unhappy to see renewed investor focus on valuation metrics this year, even if we must endure some red ink along the way,…

THE PRUDENT SPECULATOR

VOLATILITY IS NORMAL BUT VALUE WINS THE RACE

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

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	113.4%	995	27	3.4	3/23/2020	1/3/2022
17.5%	68.2%	583	39	2.3	3/23/2020	1/3/2022
15.0%	66.8%	566	45	2.0	3/23/2020	1/3/2022
12.5%	45.0%	340	72	1.3	3/23/2020	1/3/2022
10.0%	35.4%	249	98	0.9	3/23/2020	1/3/2022
7.5%	23.8%	150	157	0.6	9/23/2020	1/3/2022
5.0%	14.8%	73	307	0.3	10/4/2021	1/3/2022

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%	-15.4%	64	157	0.6	1/3/2022	1/27/2022
-5.0%	-10.9%	36	307	0.3	1/3/2022	1/27/2022

From 02.20.28 through 01.27.22. Price return series. We defined a Declining Market as an instance when stocks dropped the specified percentage or more without a recovery of equal magnitude, and an Advancing Market as in instance when stocks appreciated the specified percentage or more without a decline of equal magnitude. SOURCE: Kovitz using data from Bloomberg, Morningstar and Ibbotson Associates

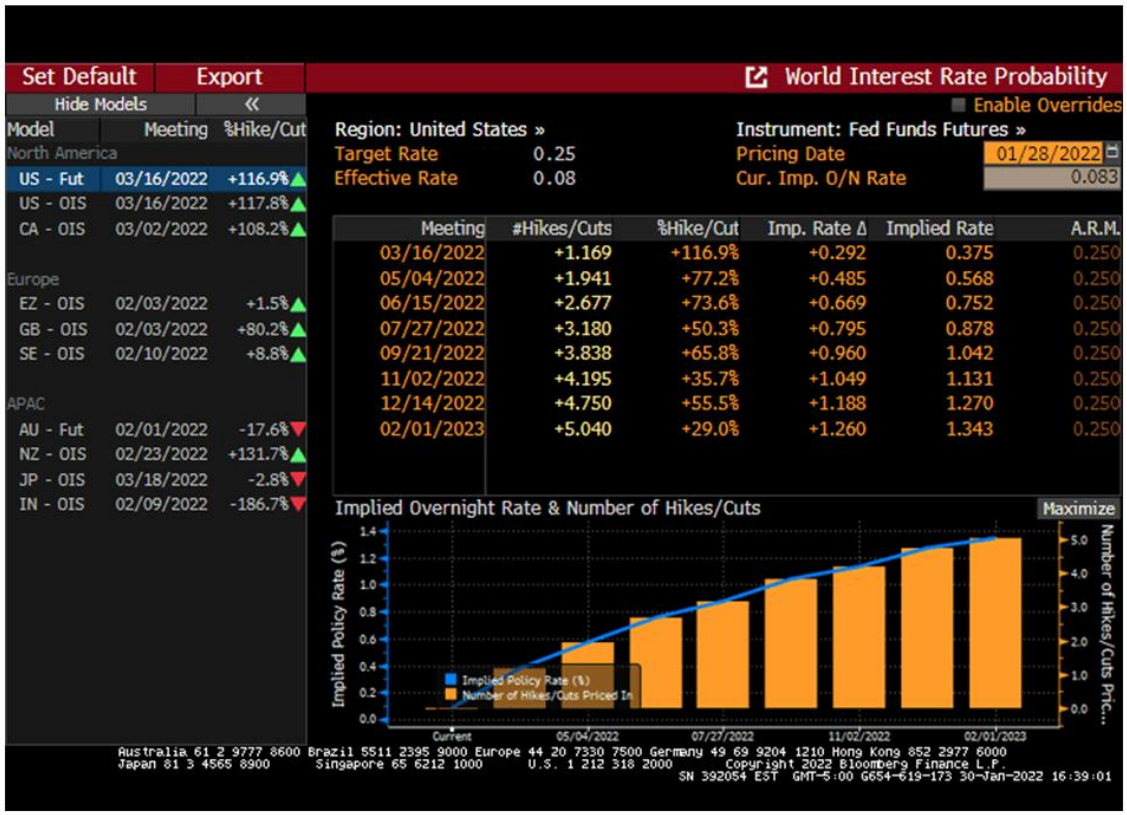
LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.2%	26.0%
Growth Stocks	9.9%	21.3%
Dividend Paying Stocks	10.8%	18.0%
Non-Dividend Paying Stocks	9.3%	29.3%
Long-Term Corporate Bonds	6.1%	7.6%
Long-Term Gov't Bonds	5.5%	8.6%
Intermediate Gov't Bonds	5.0%	4.3%
Treasury Bills	3.3%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 12.31.21. 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

…and we understand that investors are concerned about pending Federal Reserve rate hikes,…

FED FUNDS RATE ODDS SUGGEST FIVE RATE HIKES IN 2022



…though five decades of market history shows that stocks, led by Value, have done fine, on average in rising rate environments.

Rates Change and Equities Rise

Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	20.2%	40.9%	38.6%	24.7%	31.2%	25.2%
4.6%	RISING	02.28.1977	06.30.1981	12.1%	35.8%	21.0%	21.6%	36.7%	14.7%
19.1%	FALLING	07.31.1981	02.28.1983	14.5%	21.4%	28.6%	13.5%	7.9%	15.5%
8.5%	RISING	03.31.1983	08.31.1984	11.2%	9.1%	18.1%	0.4%	-6.1%	10.1%
11.6%	FALLING	09.30.1984	10.31.1986	25.1%	14.1%	26.4%	18.5%	11.0%	26.1%
5.9%	RISING	11.30.1986	03.31.1989	11.2%	7.3%	12.4%	6.3%	5.6%	10.8%
9.9%	FALLING	04.30.1989	12.31.1992	13.5%	9.2%	12.3%	13.9%	12.0%	13.8%
2.9%	RISING	01.31.1993	04.30.1995	10.4%	12.7%	10.6%	5.2%	10.6%	9.6%
6.1%	FALLING	05.31.1995	01.31.1999	29.4%	14.1%	24.0%	21.3%	28.6%	27.2%
4.6%	RISING	02.28.1999	07.31.2000	12.1%	30.1%	15.2%	26.7%	36.5%	4.4%
6.5%	FALLING	08.31.2000	12.31.2003	-7.5%	10.8%	10.6%	-9.0%	-17.9%	2.9%
1.0%	RISING	01.31.2004	03.31.2007	9.5%	11.1%	15.2%	7.7%	8.6%	10.5%
5.3%	FALLING	04.30.2007	02.28.2014	5.7%	7.3%	4.1%	8.2%	9.9%	5.6%
0.1%	RISING	03.31.2014	04.30.2019	11.6%	5.7%	7.1%	11.9%	13.5%	10.6%
2.4%	FALLING	05.31.2019	09.30.2021	23.3%	19.8%	20.4%	31.5%	33.1%	20.9%
			AVERAGE	**12.3%**	**14.0%**	**16.1%**	**11.3%**	**11.3%**	**12.6%**
			FALLING	**15.5%**	**16.2%**	**20.4%**	**15.1%**	**13.1%**	**17.0%**
			RISING	**8.6%**	**11.5%**	**11.3%**	**7.0%**	**9.3%**	**7.6%**

Frankly, we would prefer that the Jerome H. Powell & Co. take a more normal approach to monetary policy,…

EQUITY RETURNS AND 7%+ INFLATION – VALUE STOCKS THE PLACE TO BE

THE WALL STREET JOURNAL.

DOW JONES | Marvel Comics ★★★★★ THURSDAY, JANUARY 13, 2022 - VOL. CCLXXIX NO. 10 WSJ.com ★★★★ $5.00

DJIA 36290.32 ▲ 38.30 0.1% NASDAQ 15100.39 ▲ 0.2% STOXX 600 486.20 ▲ 0.6% 10-YR. TREAS. ▲ 6/32, yield 1.724% OIL $82.64 ▲ $1.42 GOLD $1,827.20 ▲ $8.60 EURO $1.1443 YEN 114.64

What's News

Business & Finance

U.S. inflation hit its fastest pace in nearly four decades last year as pandemic-related supply and demand imbalances, along with stimulus intended to shore up the economy, pushed prices up at a 7% annual rate. A1, A2

◆ Stocks took the inflation data in stride, with the S&P 500, Dow and Nasdaq adding 0.3%, 0.1% and 0.2%, respectively. U.S. government bond yields fell. B9

◆ TPG priced its initial public offering at $29.50 a share, the midpoint of its projected range, in the first big test of the IPO market in the new year. B1

◆ Thousands of workers at supermarket operator Kroger went on strike in Denver, seeking better pay, benefits and conditions. B1

◆ Checkout.com said it raised $1 billion in a recent share sale that valued the U.K.-based digital-payments processor at $40 billion. B5

◆ A federal judge has scheduled a late-September sentencing date for Theranos founder Holmes following her fraud conviction. B3

◆ TV and digital ratings for the NFL's regular-season games jumped 10% from last season, Nielsen data show. B4

◆ TransUnion will let consumers give blockchain companies access to their personal credit data. B4

World-Wide

◆ The Omicron variant is putting China's "zero-Covid" strategy to the test, as health experts say the highly contagious strain will be harder to manage, likely leading to more frequent and longer-lasting restrictions. A1

◆ U.K. Prime Minister Johnson, trying to defuse one of the most perilous moments of his tenure, apologized for attending a drinks party in the garden of 10 Downing Street in 2020 when Britons were

Inflation Hits Fastest Clip Since '82

Consumer prices rise by 7% as pandemic disruptions, consumer demand stay strong

By Gwynn Guilford

U.S. inflation hit its fastest pace in nearly four decades last year as pandemic-related supply and demand imbalances, along with stimulus intended to shore up the economy, pushed prices up at a 7% annual rate.

The Labor Department said Wednesday the consumer-price index—which measures what consumers pay for goods and services—rose 7% in December from the same month a year earlier, up from 6.8% in November. That was the fastest since June 1982 and marked the third straight month in which inflation exceeded 6%.

The so-called core price index, which excludes the often-volatile categories of food and energy, climbed 5.5% in December from a year earlier.

Please turn to page A2

◆ Greg Ip: Biden's inflation fix starts at micro level A2

◆ Stocks gain after high inflation data B9

◆ Heard on the Street: Watch for wage spiral B10

China's 'Zero-Covid' Efforts Face Big Test From Omicron

By Natasha Khan, Liyan Qi and Keith Zhai

HONG KONG—Over the past two years, China has used some of the strictest measures anywhere to keep Covid-19 out and long succeeded in holding numbers down. But as Omicron poses the biggest challenge since the start of the pandemic, the country is looking more honed in by its own formula.

Beijing has repeatedly pointed to Western countries where the virus has run rampant as cautionary examples. But as the Omicron variant spreads inside China ahead of February's 2022 Beijing Winter Olympic Games, an uncomfortable reality is setting in: The country's ability to keep the virus at bay has meant low levels of natural immunity. Vaccination rates are high, but how effective Chinese vaccines are against Omicron remains in question.

China has held fast to its "zero-Covid" strategy despite a mounting toll on its people

Please turn to page A11

◆ India festival fuels Covid-spread fears A11

Heir to Scholastic Is Now in Charge Of Fixing It

Iole Lucchese faces innovation hurdles and some skepticism over her track record

By Sharon Ramachandran And Jeffrey A. Trachtenberg

Scholastic Corp. was attempting an overhaul of its websites with the goal of creating a single online identity for its many divisions, which had each gone in its own direction.

When the effort hit the digital projects at the publishing company known for titles such as the "Harry Potter" series, "Clifford the Big Red Dog" and "The Hunger Games."

Ms. Lucchese, 55, is now in an even more influential position. Mr. Robinson's will bequeathed his controlling stake in the company to her

McCarthy Rejects Panel's

Inflation Rate >= 7.0% 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	4.5%	2.1%	10.3%	5.4%	24.5%	14.3%
Geometric Average	3.8%	1.5%	8.8%	4.1%	21.6%	11.7%
Median	3.9%	1.7%	6.7%	4.3%	18.0%	12.4%
Max	50.6%	33.2%	82.1%	61.2%	133.3%	84.3%
Min	-19.2%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	131	131	131	131	131	131

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate <7.0% 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%	3.2%	8.1%	6.3%	16.3%	12.4%
Geometric Average	3.1%	2.5%	6.1%	4.9%	12.1%	9.5%
Median	4.0%	3.5%	8.0%	6.5%	16.2%	13.1%
Max	201.1%	131.7%	245.2%	135.6%	358.2%	213.8%
Min	-43.5%	-40.4%	-56.3%	-47.0%	-71.5%	-64.8%
Count	1001	1001	998	998	992	992

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 11.30.21.

Inflation Rate >= 7.0% 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%	2.3%	9.3%	5.8%	22.3%	15.9%
Geometric Average	3.7%	1.6%	8.2%	4.1%	20.6%	12.6%
Median	4.7%	2.7%	6.9%	4.7%	20.6%	17.7%
Max	39.8%	33.2%	63.2%	61.2%	72.6%	84.3%
Min	-16.4%	-27.8%	-26.3%	-36.0%	-28.1%	-48.0%
Count	76	76	76	76	76	76

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

Inflation Rate < 7.0% 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	3.8%	3.0%	7.7%	6.1%	15.6%	12.0%
Geometric Average	3.3%	2.6%	6.7%	5.1%	13.5%	10.2%
Median	4.0%	3.4%	8.1%	6.3%	17.1%	12.9%
Max	37.7%	32.0%	68.3%	49.7%	106.5%	92.6%
Min	-39.5%	-34.9%	-54.2%	-41.8%	-52.2%	-40.1%
Count	698	698	695	695	689	689

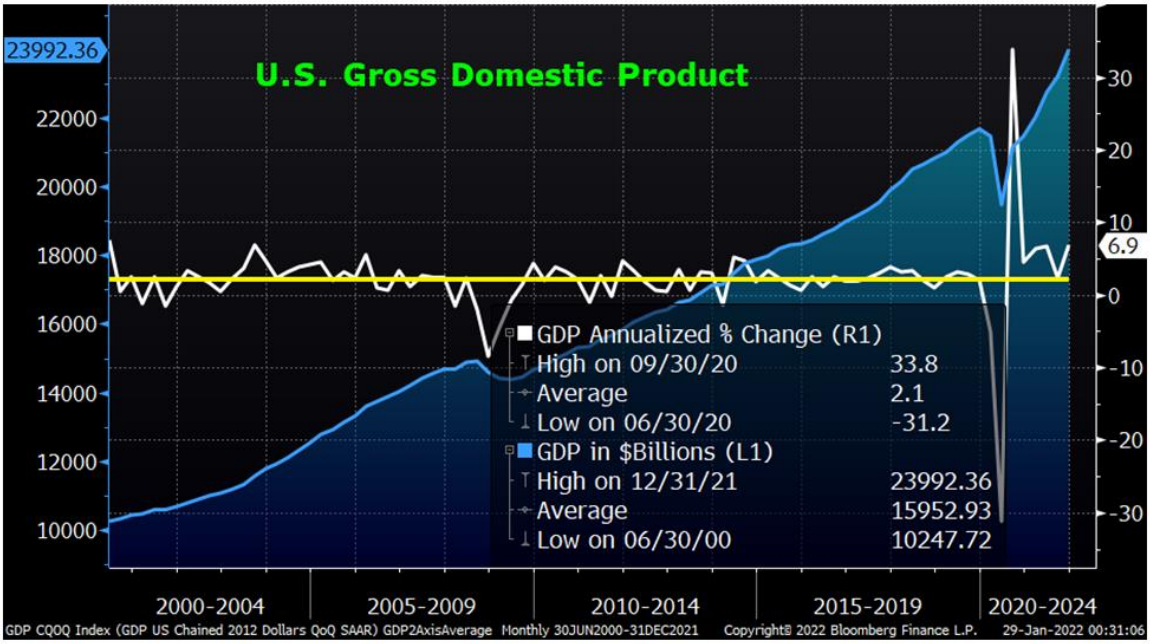
Source: Kovitz using data from Ibbotson Associates 03.31.57 - 11.30.21.

…with the Fed Chair stating last week:

Economic activity expanded at a robust pace last year, reflecting progress on vaccinations and the reopening of the economy, fiscal and monetary policy support, and the healthy financial positions of households and businesses. Indeed, the economy has shown great strength and resilience in the face of the ongoing pandemic. The recent sharp rise in COVID cases associated with the Omicron variant will surely weigh on economic growth this quarter. High-frequency indicators point to reduced spending in COVID-sensitive sectors, such as travel and restaurants. And activity more broadly may also be affected as many workers are unable to report for work because of illness, quarantines, or caregiving needs. Fortunately, health experts are finding that the Omicron variant has not been as virulent as previous strains of the virus, and they expect that cases will drop off rapidly. If the wave passes quickly, the economic effects should as well, and we would see a return to strong growth. That said, the implications for the economy remain uncertain. And we have not lost sight of the fact that for many afflicted individuals and families, and for the healthcare workers on the front lines, the virus continues to cause great hardship.

TERRIFIC Q4 U.S. GDP GROWTH OF 6.9%

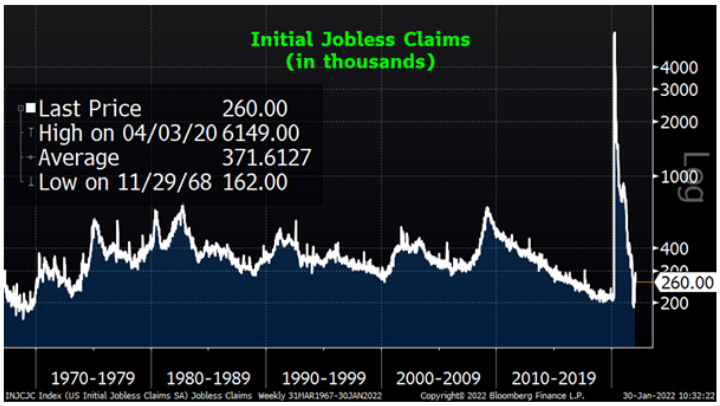
Fourth quarter 2021 real (inflation-adjusted) domestic economic growth came in at an excellent 6.9% rate on an annualized basis, and the current-dollar GDP figure of $24.0 trillion is now at an all-time high, well above the pre-pandemic $21.7 trillion posted in Q4 2019.

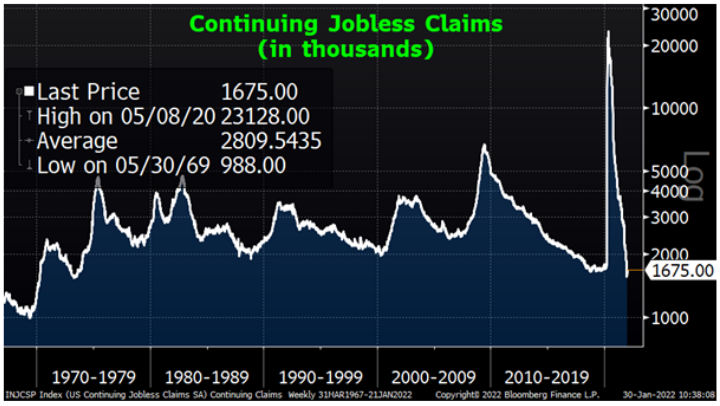


The labor market has made remarkable progress and by many measures is very strong. Job gains have been solid in recent months, averaging 365,000 per month over the past three months. Over the past year, payroll employment has risen by 6.4 million jobs. The unemployment rate has declined sharply, falling 2 percentage points over the past six months to reach 3.9 percent in December. The improvements in labor market conditions have been widespread, including for workers at the lower end of the wage distribution, as well as for African Americans and Hispanics. Labor demand remains historically strong. With constraints on labor supply, employers are having difficulties filling job openings and wages are rising at their fastest pace in many years. While labor force participation has edged up, it remains subdued, in part reflecting the aging of the population and retirements. In addition, some who would otherwise would be seeking work report that they are out of the labor force because of factors related to the pandemic, including caregiving needs and ongoing concerns about the virus. The current wave of the virus may well prolong these effects. Over time there are good reasons to expect some further improvements in participation and employment.

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR 50+ YEAR LOWS



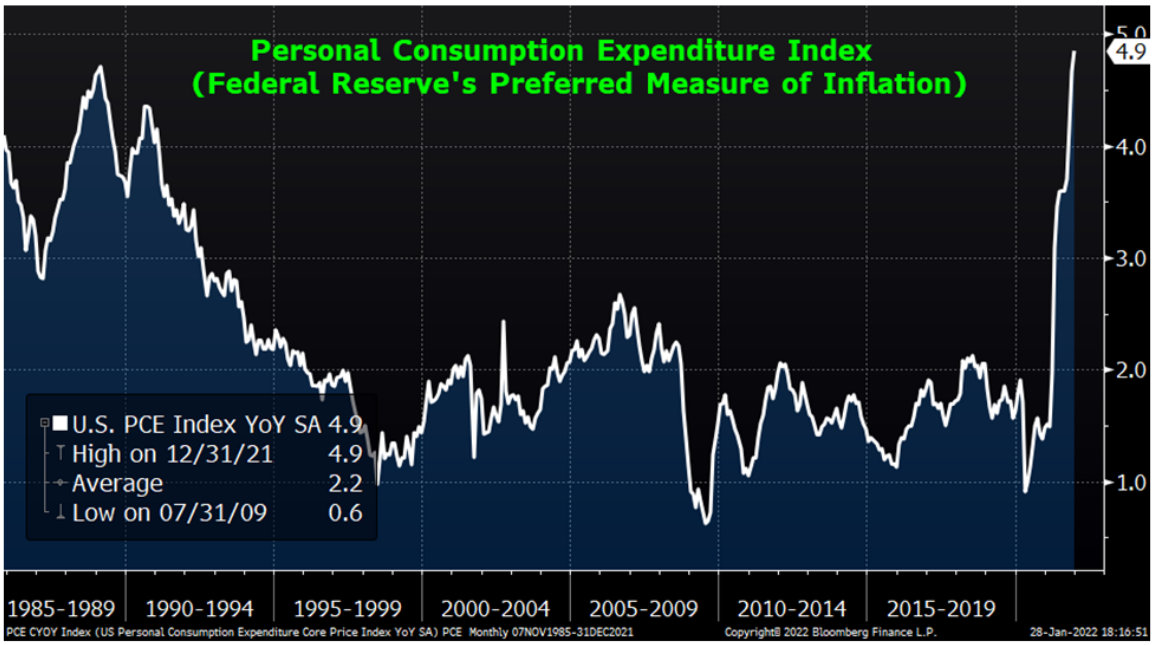


With the impact on the labor market of Omicron starting to fade, new filings for unemployment benefits for the period ended Jan. 22 came in at a seasonally adjusted 260,000, down 30,000 from the week prior and near the lowest tally since 1969 when the work force was much smaller. Continuing claims filed through state programs rose to 1.68 million but are still near five-decade lows as businesses continue to hold onto workers with labor so difficult to obtain.

Inflation remains well above our longer-run goal of 2 percent. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term. These problems have been larger and longer lasting than anticipated, exacerbated by waves of the virus.

FED FUNDS RATE INCREASES LIKELY TO BEGIN VERY SOON

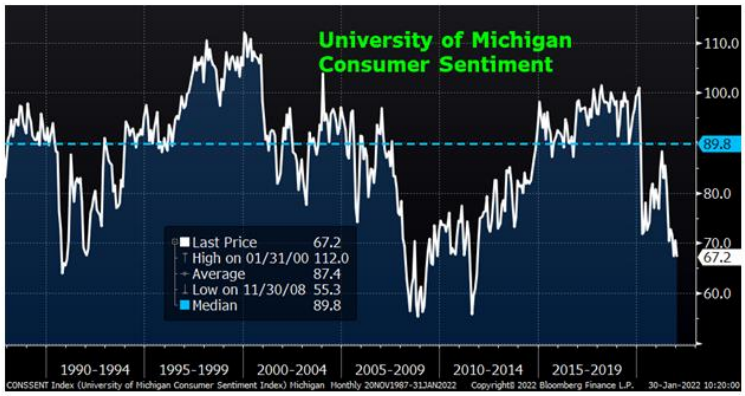
The Federal Reserve's preferred gauge of inflation, the core Personal Consumption Expenditure (PCE), jumped in December by 4.9%, above the 2.0% target, adding to investor worries about the timing and pace for interest rate hikes this year from Jerome H. Powell & Co.



While the drivers of higher inflation have been predominantly connected to the dislocations caused by the pandemic, price increases have now spread to a broader range of goods and services. Wages have also risen briskly, and we are attentive to the risks that persistent real wage growth in excess of productivity could put upward pressure on inflation. Like most forecasters, we continue to expect inflation to decline over the course of the year.

THE PRUDENT SPECULATOR

MODEST PULLBACK IN CONSUMER CONFIDENCE/SENTIMENT



Consumer confidence, per data from the Conference Board, fell in January to 113.8, down from a revised 115.2 in December, but the tally was better than expected and well above the historical norm dating back to the 1980s. On the other hand, the final Univ. of Michigan gauge of consumer sentiment for January came in at 67.2, below estimates and down from 68.8 in December, with concerns about inflation weighing, despite rapid job growth.

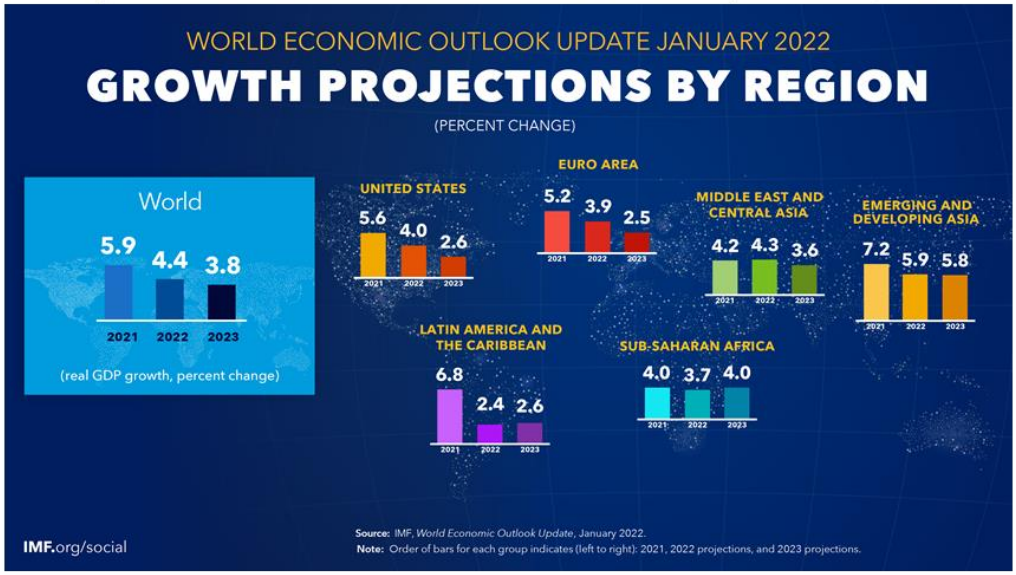
We understand that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials like food, housing, and transportation. In addition, we believe that the best thing we can do to support continued labor market gains is to promote a long expansion, and that will require price stability. We are committed to our price stability goal. We will use our tools both to support the economy and a strong labor market and to prevent higher inflation from becoming entrenched. And we will be watching carefully to see whether the economy is evolving in line with expectations.

Obviously, the strength of the economic recovery is uncertain, but we continue to think 2022 will see handsome GDP growth. Of course, we understand that many are fixated on changes in expectations rather than the actual numbers, as evidenced by *The New York Times* telling us last week that the International Monetary Fund had offered a "Grim Forecast for Growth." Never mind that the IMF now sees real (inflation adjusted) U.S. GDP growth at a very robust 4.0% this year and worldwide GDP growth at 4.4%,…

THE PRUDENT SPECULATOR

IMF JANUARY WEO – 4.4% GLOBAL & 4.0% U.S. GDP GROWTH IN '22

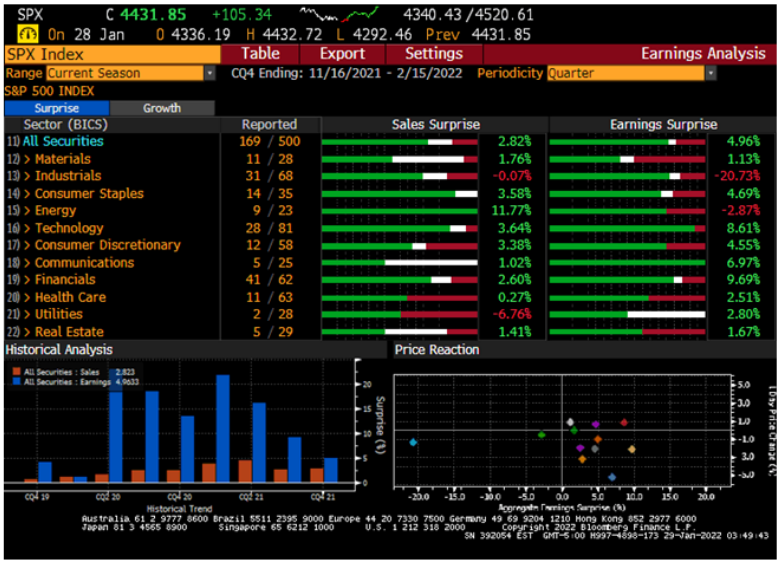
"Global growth is expected to moderate from 5.9 in 2021 to 4.4% in 2022—half a percentage point lower for 2022 than in the October World Economic Outlook (WEO), largely reflecting forecast markdowns in the two largest economies. A revised assumption removing the Build Back Better fiscal policy package from the baseline, earlier withdrawal of monetary accommodation, and continued supply shortages produced a downward 1.2 percentage-points revision for the United States. In China, pandemic-induced disruptions related to the zero-tolerance COVID-19 policy and protracted financial stress among property developers have induced a 0.8 percentage-point downgrade. Global growth is expected to slow to 3.8% in 2023. Although this is 0.2 percentage point higher than in the previous forecast, the upgrade largely reflects a mechanical pickup after current drags on growth dissipate in the second half of 2022. The forecast is conditional on adverse health outcomes declining to low levels in most countries by end-2022, assuming vaccination rates improve worldwide and therapies become more effective." – *IMF World Economic Outlook Update, January 2022*



…with the very healthy economic backdrop providing strong support for corporate profits,…

FANTASTIC EPS GROWTH IN '21 AND '22/'23 ESTIMATES ARE STRONG

Q4 earnings reporting season has started off on a strong note, even as stocks sold off sharply in the week ended 1.21.22. An impressive 76.7% of the S&P 500 companies to have announced thus far have topped EPS expectations and 68.3% have exceeded revenue forecasts.



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$63.35	$240.68
9/30/2023	$62.06	$235.19
6/30/2023	$59.47	$230.39
3/31/2023	$55.80	$225.60
12/31/2022	$57.86	$221.09
9/30/2022	$57.26	$214.60
6/30/2022	$54.68	$209.36
3/31/2022	$51.29	$206.73
12/31/2021	$51.37	$202.85
ACTUAL		
9/30/2021	$52.02	$189.66
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

Source: Standard & Poor's. As of 1.27.22

…and corporate dividends.

THE PRUDENT SPECULATOR

DIVIDENDS HAVE GROWN OVER TIME

Dividends are never guaranteed, but Corporate America has a history of raising payouts. Believe it or not, per share dividends for the S&P 500 inched up in 2020, despite the pandemic and associated economic turmoil, while *TPS* picks Archer Daniels, Norfolk Southern, Anthem, Intel, Comcast and Juniper Networks all hiked their payouts last week.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	SUSPENSIONS
2021	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	
2023 (Est.)	$69.67
2022 (Est.)	$66.67
2021	$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

Source: Bloomberg. As of 01.28.22

*****

Certainly, we must be braced for additional volatility, but we believe that our portfolios are filled with reasonably priced stocks that will continue to reward us in the fullness of time,…

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	14.8	13.2	1.2	2.5	2.2
ValuePlus	15.4	13.1	1.5	2.5	2.0
Dividend Income	13.9	12.8	1.0	2.3	2.7
Focused Dividend Income	15.1	13.9	1.3	2.6	2.4
Focused ValuePlus	14.8	14.1	1.5	2.7	2.1
Small-Mid Dividend Value	12.1	10.9	0.7	1.7	2.4
Russell 3000	26.2	20.3	2.6	4.2	1.4
Russell 3000 Growth	36.8	27.6	4.4	11.4	0.7
Russell 3000 Value	20.2	15.9	1.8	2.5	2.0
Russell 1000	24.2	20.2	2.8	4.3	1.4
Russell 1000 Growth	34.1	27.2	4.9	12.6	0.8
Russell 1000 Value	18.6	15.9	1.9	2.6	2.0
S&P 500 Index	23.7	20.1	2.9	4.5	1.4
S&P 500 Growth Index	28.5	24.7	5.4	8.9	0.7
S&P 500 Value Index	20.1	16.8	2.0	3.0	2.0
S&P 500 Pure Value Index	12.2	10.8	0.7	1.4	2.4

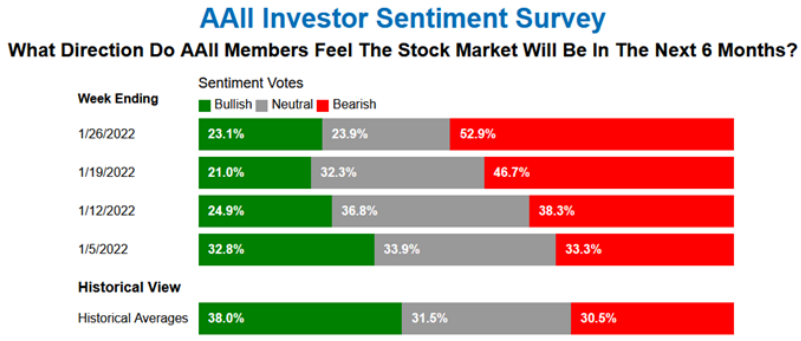
As of 01.29.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

…while we note that on Thursday, the American Association of Individual Investors Sentiment Survey provided a fantastic contrarian equity market buy signal.

THE PRUDENT SPECULATOR

SUPER AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -29.8

The gauge is widely viewed with a contrarian eye, so the tally of Bears in the latest AAII Sentiment Survey jumping 6.2 points from the week prior is a big positive, especially as the Bull-Bear spread is now -29.8, the most pessimistic reading since April 2013. Believe it or not, there have only been 30 less optimistic tallies in the 35-year history of the gauge and the ensuing six-month return during those periods for the Russell 3000 Index has averaged a whopping 14.2%, well above the 6.0% average for all periods.



AAII Bull-Bear Spread & Russell 3000 Forward TR

Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.0	-3.7%	-0.5%	6.9%	21.5%
11/15/1990	-43.0	-0.4%	3.6%	18.4%	20.1%
8/16/1990	-41.0	-8.0%	-4.6%	-4.4%	13.3%
1/10/2008	-39.3	-6.1%	-5.4%	-3.1%	-9.8%
3/13/2008	-38.7	0.7%	1.5%	5.0%	-3.0%
8/30/1990	-38.0	0.5%	-4.4%	1.4%	19.1%
2/20/2003	-36.8	0.2%	4.6%	10.9%	22.3%
7/8/2010	-36.1	2.4%	5.0%	9.9%	21.4%
10/15/1992	-36.0	1.4%	4.4%	9.4%	12.4%
4/11/2013	-35.2	-3.4%	2.7%	5.9%	9.1%
2/19/2009	-35.1	-3.4%	1.0%	18.1%	31.0%
9/13/1990	-35.0	-2.3%	-6.4%	4.1%	20.5%
10/25/1990	-35.0	-1.1%	2.4%	10.4%	27.1%
12/20/1990	-34.0	-0.3%	0.6%	13.7%	17.2%
7/20/2006	-34.0	1.0%	4.4%	10.1%	15.9%
1/24/2008	-33.9	2.2%	0.6%	3.5%	-5.3%
11/5/2009	-33.3	1.8%	3.9%	0.9%	11.9%
7/17/2008	-33.1	-0.6%	3.4%	-25.9%	-32.3%
2/1/1990	-33.0	1.7%	1.9%	1.9%	8.8%
7/10/2008	-33.0	0.8%	3.8%	-28.2%	-28.7%
11/20/2008	-32.8	18.6%	19.7%	4.8%	24.5%
2/8/1990	-32.0	0.6%	2.6%	3.0%	1.9%
10/11/1990	-31.0	3.3%	6.3%	8.4%	32.9%
11/22/1990	-31.0	0.4%	5.5%	18.1%	23.0%
2/26/2009	-30.8	-9.3%	11.3%	22.8%	40.0%
1/1/2009	-30.7	1.1%	-8.4%	-9.3%	4.8%
1/17/2008	-30.1	1.6%	2.0%	3.5%	-3.1%
1/27/2022	-29.8				
30 Period Average		0.2%	3.0%	5.8%	14.2%
All Periods Average		0.2%	0.9%	2.9%	6.0%

Source: American Association of Individual Investors and Bloomberg

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*.

Jason Clark, Chris Quigley and Zack Tart offer updates on a baker's dozen of our stocks that reported quarterly results last week or had news out worthy of mention.

Shares of **Apple** (AAPL – $170.33) jumped after the company's fiscal Q1 revenue came in ahead of lowered analyst expectations. The California-based technology giant earned $2.10 per share (vs. $1.90 est.), while revenue was $123.95 billion (vs. $119.06 billion est.). While supply chain reports indicated challenges during the year, it was hard to tell in the Q1 report. iPhone came in ahead of estimates at $71.63 billion (vs. $67.74 billion est.), as did Mac revenue of $10.85 billion (vs. $9.53 billion est.). Revenue from the Wearables-Home-Accessories and Service segments also beat expectations, while iPad was the only segment to experience a year-over-year drop (around 14%).

CEO Tim Cook commented, “Through the busy holiday season, we set an all-time revenue record of nearly $124 billion, up 11% from last year and better than we had expected at the beginning of the quarter. And we are pleased to see that our active installed base of devices is now at a new record with more than 1.8 billion devices. We set all-time records for both developed and emerging markets and saw revenue growth across all of our product categories, except for iPad, which we said would be supply constrained. As expected, in the aggregate, we experienced supply constraints that were higher than the September quarter.”

Mr. Cook continued, “A few weeks ago, we marked the 15th anniversary of the day Steve revealed iPhone to the world. We knew that we had the beginnings of something fundamentally transformative, though none of us could have predicted the incredible and meaningful impact it would have on all of our lives. The creative spirit that made the first iPhone possible has thrived at Apple every day since. We never stop creating. We never stop innovating. You can see that spirit reflected throughout our products from the incredible performance and capability of our M1 chips to our powerful yet easily use operating systems to our unrivaled iPhone camera systems to the beauty and magic of AirPods.”

CFO Luca Maestri offered a financial update, “Due to our strong operating performance and holiday quarter seasonality, we ended the quarter with $203 billion in cash, plus marketable securities. We decreased commercial paper by $1 billion, leaving us with total debt of $123 billion. As a result, net cash was $80 billion at the end of the quarter. Our business continues to generate very strong cash flow, and we’re also able to return nearly $27 billion to shareholders during the December quarter. This included $3.7 billion in dividends and equivalents and $14.4 billion through open market repurchases of 93 million Apple shares. We also began $6 billion accelerated share repurchase program in November, resulting in the initial delivery and retirement of 30 million shares.”

Mr. Maestri also gave the outlook, “Given the continued uncertainty around the world in the near term, we are not providing revenue guidance, but we are sharing some directional insights based on the assumption that the COVID-related impacts to our business do not worsen from what we are projecting today for the current quarter. We expect to achieve solid year-over-year revenue growth and set a March quarter revenue record despite significant supply constraints, which we estimate to be less than what we experienced during the December quarter. We expect our revenue growth rate to decelerate from the December quarter, primarily due to 2 factors. During the March quarter a year ago, we grew revenue by 54%. Remember that last year, we launched our new iPhones during the December quarter. While this year, we launched them during the September quarter. Due to the later launch a year ago, some of the associated channel inventory fill occurred during the March quarter last year. As a result of the different launch timing, we will face a more challenging year-over-year compare… Specifically related to Services, we expect to grow strong double digits but decelerate from the December quarter performance. This is due to a more challenging compare because a higher level of lockdowns around the world last year led to increased usage of digital content and services. We expect gross margin to be between 42.5% and 43.5%. We expect OpEx to be between $12.5 billion and $12.7 billion. We expect OI&E to be around negative $150 million, excluding any potential impact from the mark-to-market of minority investments, and our tax rate to be around 16%.”

Apple is covered by 52 analysts (that display in our Bloomberg Terminals), and it's always interesting to see a company well-covered by investors surprise by a wide margin. Certainly, a 5% move is nice for any stock we own, but Apple started Thursday with a market value of $2.6 trillion and added on over $150 billion in one trading session. When we first recommended Apple in *TPS 408* on October 6, 2000, the market capitalization was "just" $7.21 billion. What a ride!

We have trimmed Apple in recent years (and periodically over the course of our two-decade holding period), but it remains an oversized position in our portfolio, and we think demand for the company's wares will persist. India and China remain important markets, with geopolitical and pandemic challenges likely to stick around for a while longer. Although Apple is not immune to supply chain challenges, the company has been aggressive in securing components needed to keep products moving. We think that effort is reflected in the company's Q1 results. Apple continues to see success from its proprietary M1 chip, which powers the iPad Pro, iMac, MacBook and MacBook Pro, and we expect sales to remain strong. We continue to be fans of Apple and our Target Price has been boosted to $193. The valuation remains stretched, but not as much as it once was, and we'd love to see the yield of 0.5% doubled or tripled.

Computing giant **Microsoft** (MSFT – $308.26) reported a strong fiscal Q2 2022. Microsoft earned $2.48 per share in the quarter (vs. $2.32 est.) on revenue of $51.7 billion, versus the $50.9 billion estimate. Microsoft's revenue results beat analyst expectations in all areas. Productivity and Business Processes revenue was $15.94 billion (vs. $15.91 billion est.), Intelligent Cloud revenue was $18.33 billion (vs. $18.32 billion est.) and More Personal Computing revenue was $17.47 billion (vs. $16.67 billion est.). The segments grew 19%, 26% and 15% year-over-year, respectively. In Tuesday's after-hours trading session following the Q2 report, MSFT shares dropped 5%, but when trading reopened on Wednesday, they shot higher, gaining 7% from the pre-earnings-release close.

MSFT – SHORT-TERM REACTIONS NOT ALWAYS CORRECT

Software giant Microsoft posted terrific quarterly sales and earnings but when fickle investors sent the shares skidding in after-hours trading on 1.25.22, folks concluded that the results were not good enough, yet the stock went on to gain almost 7% over the next three days

MSFT CEO Satya Nadella commented, "It was a record quarter, driven by continued strength of the Microsoft Cloud, which surpassed $22 billion in revenue, up 32% year-over-year. We are living through a generational shift in our economy and society. Digital technology is the most malleable resource at the world's disposal to overcome constraints and reimagine everyday work and life. We're innovating and expanding our entire portfolio across consumer and commercial segments to help people and organizations thrive in this new era."

Mr. Nadella offered comments on Azure, "As every company becomes a digital company, they will need a distributed computing fabric to build, manage, secure and deploy applications anywhere. We have more data center regions than any other provider, delivering fast access to cloud services while meeting data resiliency requirements. We're extending our infrastructure to the 5G network edge, helping operators and enterprises create new business models and deliver ultra-low latency services closer to the end user. AT&T, for example, is bringing together its 5G network with our cloud services to help General Motors deliver next-generation connected vehicle solutions to drivers. Our Azure Arc customer base has tripled year-over-year. We are now helping thousands of organizations, from BP to Rabobank, unify their on-premise, hybrid and multi-cloud infrastructure. And as the digital and physical worlds come together, we're seeing real enterprise metaverse usage. From smart factories to smart buildings to smart cities, we are helping organizations use the combination of Azure IoT, Digital Twins and Mesh to help

digitize people, places and things in order to visualize, simulate and analyze any business process. Ecolab, for example, is using these tools to build its own platform to model and optimize water management. Across Azure, we are seeing growing adoption across every sector. CVS Health, Johnson & Johnson Medical Devices, Kyndryl and Wells Fargo all chose our cloud as their preferred provider this quarter."

Mr. Nadella concluded, "As digital technology as a percentage of global GDP continues to increase, we are innovating and investing across a diverse and growing TAM with common underlying technology stack and an operating model that reinforces a common strategy, culture and sense of purpose."

CFO Amy Hood said Microsoft expects Q3 Productivity and Business Processes revenue between $15.6 billion and $15.85 billion, Intelligent Cloud revenue between $18.75 billion and $19.0 billion and More Personal Computing revenue between $14.15 billion and $14.45 billion. Ms. Hood closed, "Digital technologies are increasingly essential to empowering every person and organization on the planet to achieve more, and we are well positioned with innovative, high-value products. Our diverse yet connected portfolio of solutions spans end markets, customer sizes and business models, uniquely enabling us to deliver long-term revenue and profit growth."

Microsoft remains one of our largest holdings, a position we are comfortable with at present. We particularly like the rotation to a subscription software model and appreciate that the company has seen tremendous growth in Azure, complemented by growth in the Xbox gaming platform and business-social network LinkedIn. We thought that Azure would pick up clients at a healthy clip, but we are impressed by the size and caliber of customers using Azure (including Kovitz!). We think the growth trends are unlikely to slow for the foreseeable future, a result in part of MSFT cementing its position in the tech world during the pandemic. Of course, technology changes quickly and Microsoft can't rest on its laurels, but for now, the company's position looks robust. MSFT's quarterly dividend was hiked last quarter to $0.62, putting the yield around 0.8%. Our MSFT Target Price has been increased to $385, and we are also intrigued by the company's planned acquisition of video-game maker Activision, especially as we think the price tag is very reasonable.

Electronic components maker **Corning** (GLW – $42.12) earned an adjusted $0.54 per share in fiscal Q4 2021 (vs. $0.52 est.). GLW had revenue of $3.71 billion, versus the $3.60 billion estimate. Shares soared on the news, with the stock rebounding 20% last week, after the company's 2022 outlook came in ahead of expectations. Corning expects $15 billion of revenue this year, up from $14.1 billion last year. In Q1 2022, GLW expects revenue between $3.5 billion and $3.7 billion with EPS between $0.48 and $0.53, thanks to "to improved profitability as negotiated price increases in long-term contracts take effect throughout the year."

CEO Wendell Weeks commented, "For the full year, sales were $14.1 billion, up 23% year-over-year. We generated EPS of $2.07, up 49% year-over-year. And we nearly doubled free cash flow. In addition, we achieved double-digit ROIC, we expanded our operating margin by 230 basis points, we increased our dividend by 9% and we reduced our outstanding shares by 5% through the resumption of share repurchases. By leveraging our fundamental capabilities and our

More Corning strategy, we are capturing a compelling set of short- and long-term opportunities across our portfolio. We are performing well in a challenging environment, and we have momentum entering the year. Now all of that said, our gross margin is simply not where it should be. As we said last quarter, throughout the pandemic, we had prioritized protecting our people and delivering for our customers in a complex, inflationary environment. And it has come at a cost. Over the last several months, we have negotiated with customers to increase prices in our long-term contracts to more appropriately share the increased cost we are experiencing. We are focused on expanding our gross. We are focused on expanding our gross margin and expect improvement in 2022 as our sales grow and our price actions take hold throughout the year."

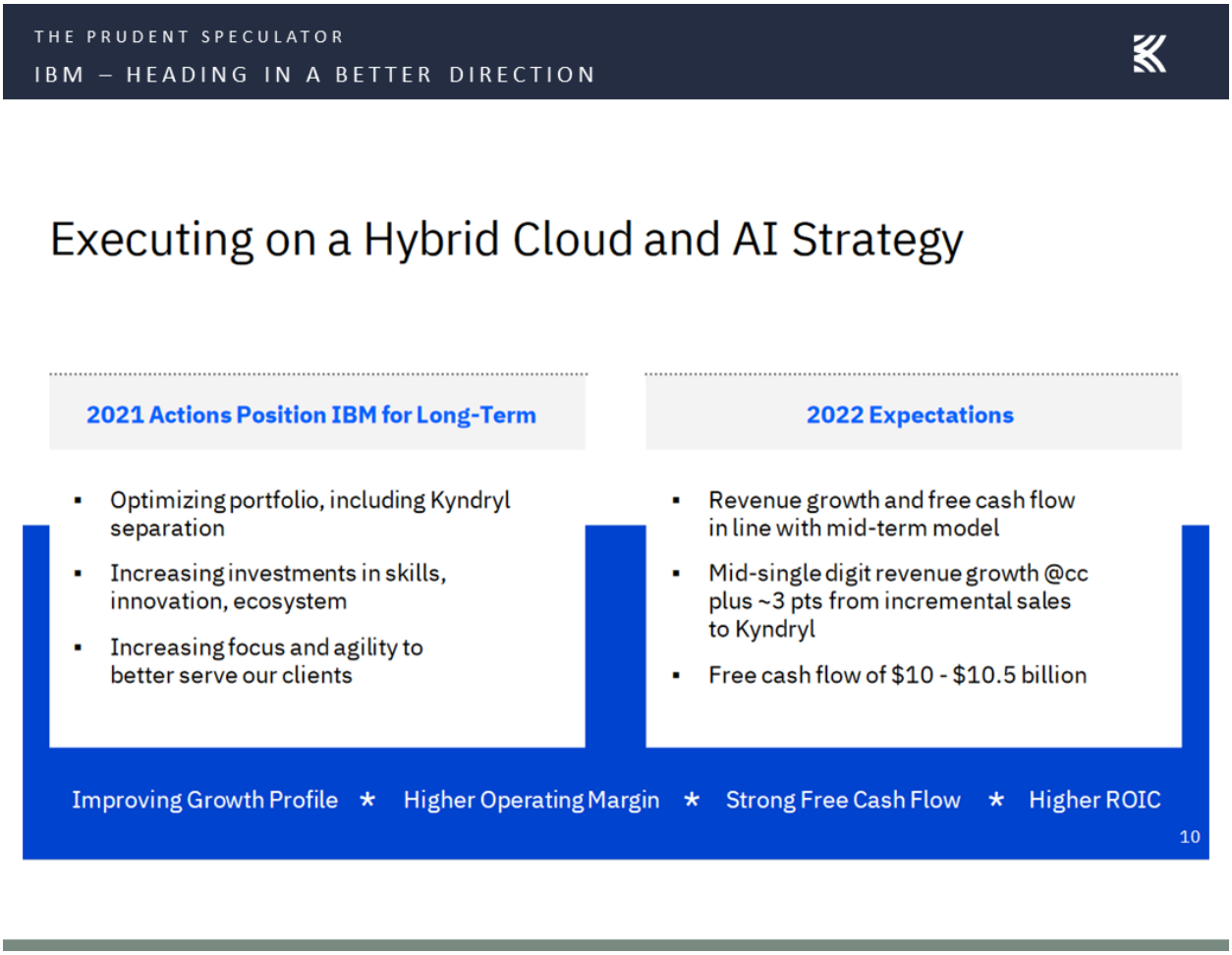
Mr. Weeks concluded, "I feel very good about our efforts to bolster equality inside and outside the company and our progress on our sustainability initiatives. Overall, we continue to build a stronger, more resilient company. We're in the early innings of exciting industry transformations, and key trends are converging around our capabilities. You can see it in our results, you can see it in our outlook for 2022 and advancement of new businesses towards significant commercial sales over the next few years. Of course, to keep advancing during Corning's next 170 years, we must focus on growing and developing our leaders. We have a new generation who are stepping up to guide this company through a very exciting phase of its history into the future, and I'm working closely with each of them."

Corning was awarded $45 million by Apple in 2021 from its Advanced Manufacturing Fund, bringing the total distributions to GLW from the fund to $495 million and, we think, supporting the strong working relationship between the two companies. GLW seemed to weather the pandemic well and we are glad the the company is working to boost margins again, especially as the pandemic has caused issues for supply chains and raw materials inputs. After stopping buybacks on account of the pandemic, Corning has gone back to returning cash to shareholders. Analysts expect continued earnings growth of at least 12% for the next three years, while the valuation remains reasonable. Our Target Price for GLW has been lifted to $55.

In its first quarter post-Kyndryl spinoff, **Int'l Business Machines** (IBM – $134.50) earned an adjusted $3.35 per share, 3.6% better than the analyst estimate. Shares closed the week 4% higher, but not without a good amount of volatility (particularly in after-hours trading following the release). Reporting under new business segmentation, strong software sales pushed the IT giant's total higher by 7% year-over-year (5.1% apart from the Kyndryl relationship) to $16.7 billion, while consulting revenue grew 13%. The company projected that 2022 would see mid-single-digit revenue growth on a constant-currency basis, with the improved top line something that loyal IBM shareholders have long awaited.

CEO Arvind Krishna continues to emphasize that IBM's hybrid cloud strategy "Begins with Red Hat." He added, "As I look back on the year, we had good success in broadening our ecosystem to drive platform adoption and to better respond to client needs. During our investor briefing, we talked about strategic partnerships that will yield billion-dollar businesses within IBM Consulting. As we move towards that, we had more than 50 percent revenue growth this year in partnerships with AWS, Azure and Salesforce. This adds to the strong strategic partnerships we have with others such as SAP, Oracle and Adobe. We're continuing to broaden our ecosystem reach. In the fourth quarter, we announced an expansion of our strategic partnership with

Salesforce to run MuleSoft integration software on Red Hat OpenShift. We also created a host of new consulting services with SAP to help clients accelerate their journey to S/4Hana. Together with Deloitte, we announced DAPPER, an AI-enabled managed analytics solution. And we have expanded our partnership with EY to help organizations leverage hybrid cloud, AI and automation capabilities to transform HR operations. We have also recently announced a host of new strategic partnerships with Cisco, Palo Alto Networks, and Telus – all focused on the deployment of 5G, Edge and network automation capabilities."



We are encouraged by the direction Big Blue is headed but find closing the gap between competitors in the cloud sphere an enormous task. Despite multiple false starts in the past, we continue to give Mr. Krishna the benefit of the doubt…for now. IBM continues to produce significant cash flow to support a substantial dividend (yield is 4.9%) and trades under 13 times estimated next-12-month EPS (a much lower earnings multiple than major cloud players). At times a contentiously debated stock within our Investment Team as every stock is fighting for its place in our portfolios, our support of IBM is not perpetual should we find a compelling alternative. That said, our Target Price has been bumped up to $161.

Hard-disk-drive maker **Seagate Technology PLC** (STX – $107.02) reported earnings per share of $2.41, versus the $2.35 estimate, in fiscal Q2 2022. STX had sales of $3.12 billion (matching

the consensus estimate). STX's 19% year-over-year revenue growth was propelled by cloud data center demand for high-capacity storage devices. In the latest quarter, STX spent $471 million to repurchase 5.1 million shares and $151 million on its quarterly dividend, leaving the company with $1.5 billion of cash and $3.3 billion remaining on the existing repurchase program.

STX CEO Dave Mosley commented, "Since the onset of the pandemic, we have consistently executed our product road map and made investments to deliver cost-efficient, higher capacity drives that offer business value for our customers while also enhancing Seagate's financial profile. We extended our proven common platform drive family from 16 to 18 and now to 20 terabytes and beyond. We also address cloud customers' performance needs through our industry-leading dual actuator technology. We've made these advancements while notably returning more than $4 billion to our shareholders through our quarterly dividend and share repurchase programs. Our execution and product momentum position Seagate to deliver a third consecutive calendar year of top line growth. We currently expect calendar year '22 revenue to increase 3% to 6% with further growth beyond, consistent with our long-term model range."

Mr. Mosley continued, "All indications point to a very steep production ramp for our 20-terabyte products with the potential of surpassing the record-setting ramp we saw for our 16-terabyte drives. As a result, we are using the seasonal slowdown in the March quarter to stage our factory operations to support strong 20-terabyte demand as the year unfolds. Our common platform approach helps to facilitate this process by enabling us to quickly transition and ramp new products into the market. Our 20-terabyte drives highly leverage the head and media technology that power our 18-terabyte product family, making the production process well understood and haste in time to yield… We are driving additional manufacturing and cost benefits by incorporating the same media and head technology to produce cost optimized drives, spanning capacities down to 2 terabyte drives… Wrapping up, we entered the March quarter amid a challenging supply environment. However, I remain optimistic for conditions to gradually improve. Importantly, our strong product portfolio and operational execution put Seagate in excellent position to deliver on our long-term revenue growth model and generate strong free cash flow in 2022 and beyond, underpinned by growing demand for mass capacity storage beyond 20 terabytes."

CFO Gianluca Romano added, "Looking ahead to the March quarter, we expect a continuation of the healthy demand environment in the nearline market with anticipated seasonal decline in VIA and the legacy markets. As Dave noted, we are mindful of the ongoing impact related to corporate dynamics and will continue to manage through supply chain constraints and other inflationary pressures that we expect to persist through at least the fiscal year. We expect March quarter revenue to be in the range of $2.9 billion, plus or minus $150 million. We expect our operating margin to be impacted by COVID-related pressure, what I just discussed over the near term. However, we believe the structural changes in the industry combined with Seagate disciplined execution will support a higher operating margin over time." STX expects adjusted EPS between $1.80 and $2.20 in the upcoming quarter, supported by growth in mass capacity storage and a strong product pipeline.

Seagate shares soared nearly 8% on the great quarter and strong outlook, pushing STX near the all-time high of $116.02 set on January 4. We think the company's valuation metrics are very

reasonable, especially for a technology stock. Storage has historically been a very volatile industry, with booms, busts and M&A volume. Yet, in the recent past, STX and its competitors have leaned towards a storage commodity model with relatively stable revenue and growing earnings power driven by volume. The strength in cloud application demand shows no signs of letting up and we remain optimistic on STX's future. Our Target Price has been elevated to $131 as the shares yield 2.6%.

Shares of embattled semiconductor manufacturer **Intel** (INTC -$47.73) fell more than 7% last week after reporting Q4 results. It was no straight shot down, as the stock initially dropped in after-hours trading, then jumped, then dropped again, and eventually finished the week down 8.3%. The microchip giant posted adjusted earnings of $1.09 per share and $0.91 of unadjusted EPS in Q4, compared with analyst expectations of $0.90, and had adjusted revenue of $20.5 billion, compared with analyst projections of $18.4 billion. Unfortunately, negative margin pressures outweighed the broadly positive quarter.

Intel CEO Pat Gelsinger said, "We also took several in a series of key steps to shape our business. To begin with, we've recently completed the first close of the sale of our NAND business on time, a critical step in optimizing our portfolio in line with our new strategy. Second, we began unfolding our plan to find innovative ways to sustainably unlock shareholder value with the announcement of our intent to take Mobileye public in 2022. Third, just last week, we announced our new manufacturing site in Ohio, which will support our future growth and advances our plan to create a more geographically balanced, resilient supply chain. While there is a lot left to do, we're building momentum, and we intend to continue our laser focus on execution, innovation and growing the business. Finally, Q4 was a sacred moment for the entire technology industry as we led the 50th anniversary celebration of the Intel 4004, the chip that changed the world. Microprocessor technology sparked by the Intel 4004 allows us to stay connected during the pandemic. It has opened up new ways to work and learn. It has removed geographical boundaries and changed almost every aspect of our lives. We are committed to accelerate this impact for the next 50 years as the insatiable need for compute that started with the 4004 continues to drive the value of Moore's Law. At IDM, we outlined a long-term path toward more than 10x density improvement in packaging and a 30% to 50% area improvement in transistor scaling. As the steward of Moore's Law, we remain committed to keeping it alive for the next decade and beyond."

Mr. Gelsinger continued, "2021 marked the best year in a decade for the PC industry, with third parties reporting a growth rate of approximately 15%, driven by higher PC density, shorter replacement cycles and increased market penetration. In Q4, we also saw the strong recovery in the channel as increased supply led to a record sell-through for Intel, and we started to see inventories return to pre-pandemic levels. The data center market was strong across all geographies in Q4, led by the enterprise where the market continued to recover from COVID lows. We expect the data center, network and edge markets to continue to have robust growth as hyperscalers lay out multiyear cloud CapEx investment plans. The ongoing need for data privacy and security drives additional edge and on-prem deployments. 5G network and edge build-outs are scaling and workloads like AI continue to expand. This unprecedented demand continues to be tempered by supply chain constraints as shortages in substrates, components and foundry silicon has limited our customers' ability to ship finished systems. Across the industry, this was

most acutely felt in the client market, particularly in notebooks, but constraints have widely impacted other markets, including automotive, the Internet of Things and the data center. As we predicted, these ecosystem constraints are expected to persist through 2022 and into 2023, with incremental improvements over this period. The industry will continue to see challenges in a variety of areas, including specialty and overall foundry shortages, substrates as well as third-party silicon."

CFO George Davis added, "We continue to see strong demand across all our businesses, and note that Q1 includes the impact of an additional 14th week. We expect results to be tempered by continued industry-wide component constraints, normal seasonality and PC notebook inventory burn as OEMs work through inventory imbalances created by ecosystem constraints that have limited their ability to ship systems in certain segments. We expect Q1 revenue of $18.3 billion, down 1% year-over-year, but up 2% when adjusting for an approximately $600 million onetime corporate revenue item recognized in Q1 '21. As we signaled in our Q3 call, gross margin will be impacted by our 10-nanometer product ramp and increased process technology investment. The aforementioned onetime corporate revenue item in Q1 '21 will also impact the year-on-year compare. We are forecasting gross margin of 52%, EPS of approximately $0.80 and a tax rate of approximately 15%." While revenue guidance exceeded average expectations of $17.67 billion, the consensus margin expectation was 52.8% and the EPS expectation was $0.86.

We think the lowered margins shouldn't have been a huge surprise, especially as Intel recently announced major capital expenditures to build four manufacturing plants in Arizona and Ohio. Concurrently, INTC is battling the now-usual array of supply chain and COVID concerns, which raised the cost of goods. It seems possible more near-term pain is in store for Intel, yet the shares already reflect the execution and business risk, as evidenced by Intel's steep discount to competitors like AMD. For example, INTC's forward P/E is 13.7x, compared with AMD's 33.2x and Intel sports a 3.1% yield, while AMD doesn't pay a dividend. With significant upside potential and a long-term thesis that INTC will recover, we see every reason to keep our position. Our Target Price now resides at $67.

Telecommunications and wireless phone service provider **Verizon Communications** (VZ – $52.90) earned an adjusted $1.31 per share in Q4 2021 (vs. $1.21 est.). VZ had operating revenue of $34.1 billion (vs. $34.03 billion est.). Shares fell on the news, as shareholders shrugged at strong subscriber numbers, including Verizon's internet service 55,000 net new additions and 1.06 million net postpaid wireless phone service additions.

CFO Matt Ellis stated, "Our strategy is working, and these results demonstrate our ability to compete effectively to drive new high-quality customers to our platforms, while also serving our best-in-class customer base. We do this with the financial discipline that enables us to deliver attractive service revenue growth and profitability, as evidenced by another strong earnings performance with healthy cash generation. It starts with our award-winning networks, which enable both our consumer and business organizations to deliver the best products, services and experiences to customers. With the acquisition of TracFone, the deployment of C-band spectrum, new mix and match plans and the strongest and most innovative team in the industry, 2022 is positioned to be our best year yet."

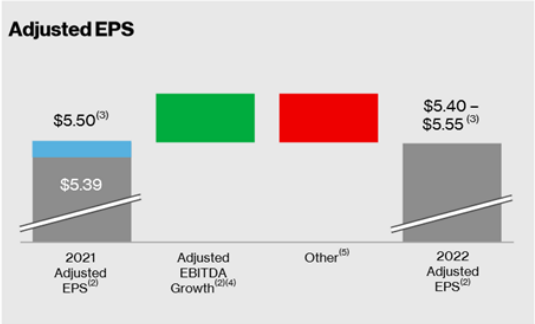
CEO Hans Vestberg added, “The assets are in place to make 2022 Verizon’s best year yet. Coming off a catalyst year, we are excited to execute on our 5 vectors of growth and deliver the financial targets we laid out at our Investor Day back in March of last year. We have clear priorities for the year. We will continue our legacy of disciplined execution and look forward to delivering against our operation and financial targets. We expect organic service and other revenue growth of around 3% in 2022, and we also expect to increase EBITDA by 2% to 3%. We commit to strengthen and growing our core business and commercializing our unique assets. By combining our Verizon Ultra Wideband with the new mix and match plans, we can supercharge 5G Ultra Wideband adoption to enhance customer experiences and to increase average revenue per user… We will continue to run Verizon as a purpose-driven organization. We will pursue C-band and 5G leadership because these technologies are critical for economic prosperity and driving innovation for all, not just for Verizon.”

THE PRUDENT SPECULATOR

VZ – NO ‘22 GROWTH NOT A HUGE PROBLEM WITH A 10 P/E AND 5% YIELD

2022 Guidance

Guidance	
Service and other revenue growth	1.0% – 1.5% as reported *(~3%, excluding VMG & Tracfone)*
Total Wireless service revenue growth[1]	9% – 10% as reported *(3%+ excluding Tracfone)*
Adjusted EBITDA growth[2]	2% – 3% as reported
Adjusted effective tax rate[2]	23% – 25%
Adjusted EPS[2]	$5.40 – $5.55
Capital expenditures	$16.5B – $17.5B +$5B – $6B for C-Band



[1] Sum of Consumer and Business segments.
[2] Non-GAAP measure.
[3] 2021 and 2022 exclude $0.11 and approximately $0.17 – $0.19 of acquisition-related intangible amortization, respectively.
[4] Includes Adjusted EBITDA impact of strategic transactions.
[5] Includes additional D&A, lower capitalized interest, pension & OPEB expense, Tracfone share issuance and other non-cash items.

Verizon expects adjusted EPS between $5.40 and $5.55 for 2022, ahead of the analyst consensus estimate of $5.36, and expects wireless service revenue to grow between 9% and 10%. VZ had capital spending around $20.3 billion in 2021, a figure that the company expects to build on in order to achieve its revenue targets. The 5G rollout was delayed in some locales as a result of an issue with the FAA, which fortunately seems to be largely settled now. We think Verizon has done a good job moving towards a sustainable, long-term business model and avoiding some of

the content battles that have distracted (and proven costly for) competitors. VZ trades with a forward P/E below 10 and a yield of 4.8%, metrics that are very attractive relative to the company's historical norms. We note that VZ bounced back on Friday on news that Mr. Vestberg bought $1 million of stock and our Target Price now resides at $76.

Network hardware provider **Juniper Networks** (JNPR – $33.63) earned $0.56 per share in fiscal Q4 2021 (vs. $0.55 est.). JNPR's revenue grew 6.3% year-over-year to $1.30 billion (vs. $1.27 billion est.), while the adjusted operating margin of 18.3% came in ahead of the 17.8% expectation.

CEO Rami Rahim said, "Demand remained strong and exceeded our expectations with orders seeing high teens year-over-year growth when adjusted to account for extended lead times. On an unadjusted basis, orders grew by more than 50% year-over-year for a third consecutive quarter, and our ending backlog increased to a record level of more than $1.8 billion. Order momentum was strong across all verticals, all customer solutions and all geographies with each of these categories experiencing strong double-digit order growth year-over-year. Our Q4 results capped a very strong 2021, which saw us grow our enterprise business for a fifth consecutive year, grow our cloud business for a third consecutive year and return our Service Provider business to growth. Not to be overlooked, we also expanded our non-GAAP operating margin year-over-year despite absorbing material increases in both supply chain and acquisition-related costs. Our teams are executing extremely well, and we are entering the new year with strong momentum. This momentum is being driven by our strategic actions, and there are 4 pillars that give me confidence as we look forward to 2022."

CFO Ken Miller added, "We expect first quarter revenue of $1.150 billion, plus or minus $50 million, which is growth of 7% year-over-year. We are still experiencing significant supply chain-related headwinds associated with rising components and elevated freight costs, which are expected to continue at least through the first half of the year. While we have taken pricing actions to offset these headwinds, we do not expect these actions to have an impact until later in the year. Therefore, we expect first quarter non-GAAP gross margin of approximately 58% and plus or minus 1%, a sequential decrease. Our non-GAAP earnings per share is expected to be approximately $0.31, plus or minus $0.05, assuming a share count of approximately 332 million."

Mr. Miller continued, "Turning to our expectations for the full year of 2022. Given the strong order momentum we are experiencing and our exiting backlog, we are updating our revenue growth expectations for 2022 from at least mid-single digits to 7% to 9% growth. This guidance assumes the current supply chain environment remains constrained throughout the year, similar to current levels and does not further deteriorate. Beyond the first quarter, we expect revenue to grow sequentially throughout the course of the year. We expect supply chain constraints to be particularly tight during the first half and remain challenged throughout the remainder of the year. We also anticipate backlog to remain at elevated levels and largely unchanged throughout the year."

JNPR hiked the quarterly dividend by 5% to $0.21 and repurchased $433 million worth of shares in 2021. Compared to other technology companies like JNPR, we think the outlook might be on

the conservative end and we would not be surprised to see JNPR boost its forecast later this year. The company's data center solutions business experienced supply chain challenges that adversely impacted results in Q4, but we believe Juniper can get the issues sorted out and return to growth in that area. JNPR trades with a forward P/E less than 17 and yields a solid 2.5%. Our Target Price has inched up to $39.

Not unlike the other financials we own, shares of **Synchrony Financial** (SYF – $41.42) skidded 6.8% on Friday even as the company added another to its recent string of solid financial reports. The consumer finance concern earned $1.48 per share in Q4, bringing the full-year figure to $7.34 (more than 70% higher than pre-pandemic 2019). The print was driven by 32 basis points of sequential improvement in net interest margin. Of course, non-interest expenses rose across categories as elevated balance paydowns, promotional competition and wage pressures remain. Credit costs were also mild as net charge-offs in December were 2.4%. Given the solid performance of late, the Synchrony board approved an increase in the share repurchase authorization through June 2022 by an incremental $1 billion. As of December 31, there was $1.2 billion remaining on the buyback program.

CEO Brian Doubles commented, "Synchrony's strong fourth quarter performance reflected broad-based growth across our business as the compelling value of our products resonated with the heightened demand from a strong consumer. We closed the year with strong new account originations, and record purchase volume and net earnings – a testament to our high level of execution across our key strategic priorities. During the year, we grew our existing partner programs and added new partners. We also continued to diversify our products and expand our distribution channels."

He added, "Synchrony also continued to prioritize innovation through further investment in our digital products and capabilities – all with a focus on delivering best-in-class omnichannel experiences for our partners and customers. As we continue to execute on these and the many opportunities ahead, we are well-positioned to reach and serve even more partners and customers and, in so doing, drive sustainable growth, attractive returns and considerable capital for our stakeholders over the long-term."

We remind that the Gap portfolio is on tap to be sold to Barclays, but continue to like the diversity of the firm's partners across brick and mortar and digital leaders alike (i.e. PayPal and Amazon). Newer programs with Walgreens and Verizon further diversify and provide avenues for loan growth. We are mindful, however, that the top five partners represent close to 50% of total revenue. We aren't all that surprised at the recent pullback in the share price given the handsome run over the past couple of years, as we continue to view SYF as a higher-risk name within our group of Financials. Mindful not to let our exposure grow too large, shares trade at an attractive single digit P/E multiple with a dividend that yields 2.1%. Our Target Price is now $59.

Shares of **Archer Daniels Midland** (ADM – $75.92) enjoyed a 10% rally last week, adding to the 34% advance in 2021, following another strong quarterly financial release relative to consensus analyst estimates. The agricultural giant announced adjusted Q4 EPS of $1.50, 9% above expectations, on $23.1 billion of revenue, which outpaced the average forecast by more

than 14%. Although Ag Services and Oilseeds profits dipped slightly relative to the prior year, net income for Carbohydrate Solutions and Nutrition segments picked up the slack, growing 105% and 26%, respectively.

CEO Juan Luciano commented, "Our record results reflect the continued success of our growth strategy and our culture of innovation and execution, which enabled our global team to successfully navigate through supply chain challenges while capitalizing on favorable demand dynamics to deliver an outstanding year. Just as importantly, we're advancing our productivity and innovation actions to accelerate earnings growth."

Looking ahead, Mr. Luciano added, "We've positioned our portfolio to align with the enduring trends of food security, health and well-being, and sustainability. As we enter 2022, we're well situated to capitalize on strong crush margins, driven by good demand for meal and for vegetable oil as a feedstock for renewable green diesel; a continuing healthy ethanol market, supported by increased domestic and export demand and better clarity of the regulatory landscape; and our robust Nutrition sales pipeline, as well as the accretion of our recent acquisitions in that business."

The board approved an 8% increase in the quarterly dividend, as management expects EPS of $6.00 to $7.00 in 2022.

Often subject to volatile swings in commodity markets, we acknowledge that the wind may not always be at ADM's back. For the time being, however, we appreciate the tightness that broadly characterizes global ag markets and expect this to persist throughout 2022. Happily, our patience in sticking with the stock through lean periods has been paying off, even as the valuation is still not far from the long-run average (around 15 times NTM EPS estimates). The dividend yield is now 2.1% and our Target Price has been raised to $86.

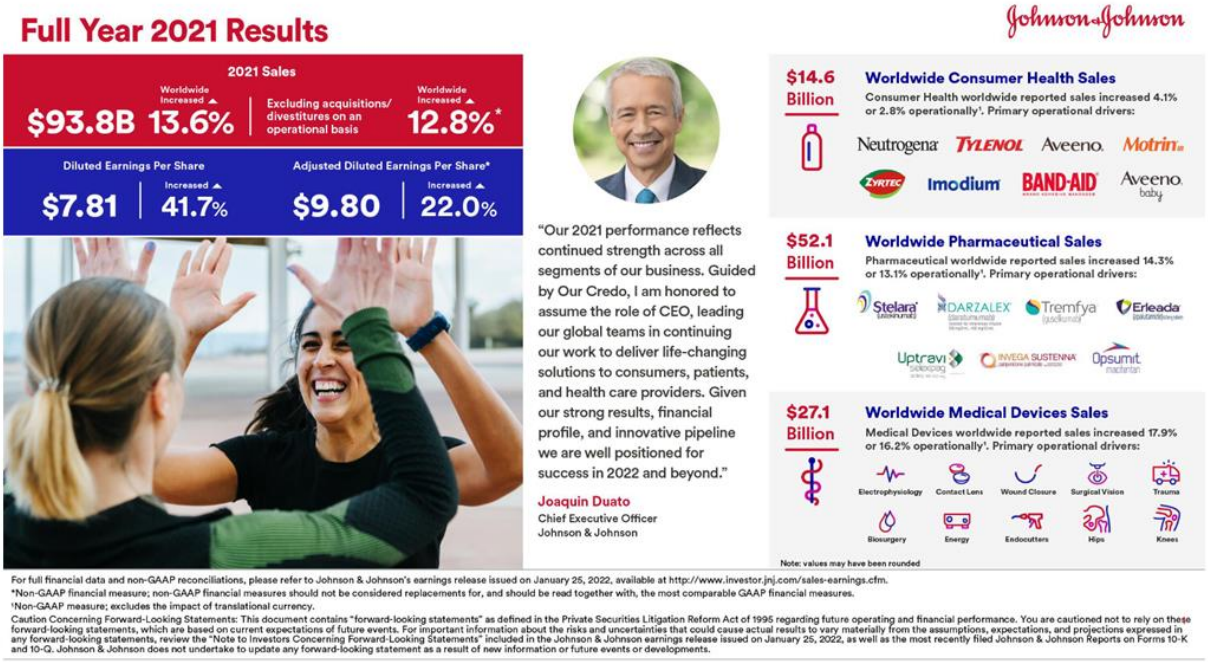
Johnson & Johnson (JNJ – $171.79) posted earnings of $2.13 per share in Q4 (in line with the analyst estimate), bringing EPS for 2021 to $9.80, a 22% improvement year-over-year. JNJ's largest segment, pharmaceuticals, posted 16.5% year-over-year sales growth to $14.3 billion in Q4. The segment was led by ulcerative colitis drug Stelara and cancer treatment Darzalex, representing sales of $2.3 billion and $1.6 billion, respectively. The Jannsen COVID-19 vaccine produced $1.6 billion, more than double the figure from Q3. Medical devices grew 5.3% as October procedure volumes were in line with pre-pandemic levels, although management said volumes eroded throughout the quarter.

CFO Joseph Wolk offered an update on the separation of JNJ's Consumer Health division, "As independent companies, the new Johnson & Johnson and the new Consumer Health company will each be better positioned to exercise more focused strategic and capital decisions. We intend for each company to possess compelling financial profiles that reflect the strengths and opportunities of each business, enabling each company to be in a position to enhance the strong results that you've come to expect. As far as where we stand in the process, we have established a very strong, largely separate team focused on advancing the separation, and the financial and operational workstreams are well underway. As conveyed in November, the Board of Directors' intent is for the planned separation to occur through the capital markets, and there are multiple

capital market separation pathways being considered. In the first half of 2022, we anticipate announcing key executive leadership appointments for the new Consumer Health company, with plans to provide the new company name and headquarters location around the middle of this year. In the second half of 2022, we plan to provide the updated path forward and applicable financial information, such as refined standup cost estimates and potential short-term dis-synergies. Finally, consistent with our previous communications, we expect to execute the separation in 2023."

THE PRUDENT SPECULATOR

JNJ – EXCELLENT '21 AND HIGHER GUIDANCE FOR '22



Management aims to generate EPS between $10.60 and $10.80 per share in 2022, with the COVID-19 vaccine expected to contribute approximately $0.20 (on $3 billion of sales) to the total. Sales are expected to reach $99.7 billion at the mid-point of their guided range. Regarding the recovery in medical devices, Mr. Wolk added, "We expect COVID-19 and hospital staffing to continue to be a dynamic variable, likely more impactful in the first half of 2022 as we cycle through Omicron. Our 2022 guidance assumes continued medical devices market recovery, but it also assumes, as you have heard us say previously, enhanced competitiveness. Almost all of our priority platforms are holding or gaining share based on third quarter 2021 year-to-date information, illustrating the positive business momentum versus 2019, when only about 50% of our platforms were holding or gaining share. This improved market performance enables us to maximize the value of recently launched products."

Despite a lot of operational momentum for the health care behemoth, the company faces plenty of litigation (talc, baby formula, opioid), so we continue to monitor the progress of JNJ's attempts to move the lawsuits into a separate entity intended for bankruptcy. Without the legal black could, we think he stock price would be substantially higher than the current level of just 16.6 times the next-12-month estimated earnings (an 18% discount to the P/E of the S&P 500), while we like the 2.5% dividend yield. Our Target Price is now $200.

The 6% rally for shares of **Lockheed Martin** (LMT – $393.15) last week seemingly had something to do with the FTC getting in the way of the giant defense contractor's $4.4 billion purchase of Aerojet Rocketdyne, though it was a busy five days as Q4 financial results were also released. Just as management had suggested in a press release, "Lockheed Martin believes it is highly likely that the FTC will vote to sue to block the transaction and expects they will make a decision before Jan. 27, 2022," the FTC announced that it would sue to block the merger.

The 3-letter agency added, "The FTC is suing to block Lockheed Martin, the world's largest defense contractor, from eliminating Aerojet, our nation's last independent supplier of key missile inputs," said FTC Bureau of Competition Director Holly Vedova. "Lockheed is one of a few missile middlemen the U.S. military relies on to supply vital weapons that keep our country safe. If consummated, this deal would give Lockheed the ability to cut off other defense contractors from the critical components they need to build competing missiles. Without competitive pressure, Lockheed can jack up the price the U.S. government has to pay, while delivering lower quality and less innovation. We cannot afford to allow further concentration in markets critical to our national security and defense."

Despite the Aerojet setback, Lockheed posted EPS of $7.47 in Q4 on $17.7 billion of revenue, with the bottom-line figure nicely above analyst expectations and good enough for a 17% bump over the prior year quarter. Sales and profit for all of 2021 grew in all segments except for space as the U.K. renationalized its atomic weapons program. Lockheed built 3 major facilities (including an addition to the Skunk Works organization) last year to support efforts in digital engineering and hypersonics development.

CEO James Taiclet reflected on the national defense budget, "This quarter, Congress passed the fiscal year 2022 National Defense Authorization Act with strong bipartisan support in both the House and Senate. The NDAA policy bill was subsequently signed into law by President Biden. This legislation authorizes a $25 billion increase for the Department of Defense for a total of approximately $740 billion for defense programs and raised the investment accounts approximately 8% above the President's originally requested amounts. Currently, the DoD is operating under a continuing resolution through February 18 for FY 2022. As Congress continues the appropriations process, we believe our programs are well supported, reflecting the fact that our portfolio is aligned with affordably delivering our customers' national security capabilities."

In its financial outlook for 2022, management expects over $26.00 of earnings per share, $66 billion of revenue and more than $6 billion of free cash flow. We wouldn't be surprised to see a lot of that cash go towards higher dividends and share repurchases, given management's stated intention to reward shareholders, as the environment is much less conducive towards M&A.

We continue to like the combination of cost-plus contracts with R&D effectively paid for by customers, and believe they offer the ability to use cash flow for share buybacks and generous dividends (the yield is 2.8%). Having consolidated over the past few years, shares are available at a very attractive forward P/E of 14.7, the lowest of major defense prime contractor peers. With North Korea testing its biggest missile since 2017 and the crisis in the Ukraine providing real-time reminders that the world remains a dangerous place, our Target Price for LMT has been boosted to $493.

Last week began with **Kohl's** (KSS – $60.16) management confirming that the retailer had received interest from multiple parties interested in acquiring the company. The reports follows calls almost a year ago from a group of corporate raiders to pursue certain schemes, including sale-leaseback arrangements for real estate and inventory reductions. This time, instead of a small stake, a consortium (which reportedly includes Starboard Value) offered $64 per share of cash the prior Friday. Shares leapt nearly 36% this past Monday on the news, but the excitement cooled over the following four trading days, with the stock shedding roughly 7% from the peak on Tuesday by the Friday close.

Despite the agitation from outsiders, we think Kohl's CEO Michelle Gass & Co are doing positive things for the retail chain (and its shareholders). These include partnerships with Sephora and Calvin Klein, and beefing up capital returns, with the share count 10% lower now than a year ago. We welcome any and all potential suitors for a buyout, but we would rather the Kohl's board hold out for a more rewarding offer. Indeed, the publicized $64 per share would still be a single-digit multiple of earnings expected for 2022 and it would fall far short of our current $81 Target Price. As such, we will continue to hold our KSS shares.