Market Commentary Monday, May 23, 2022

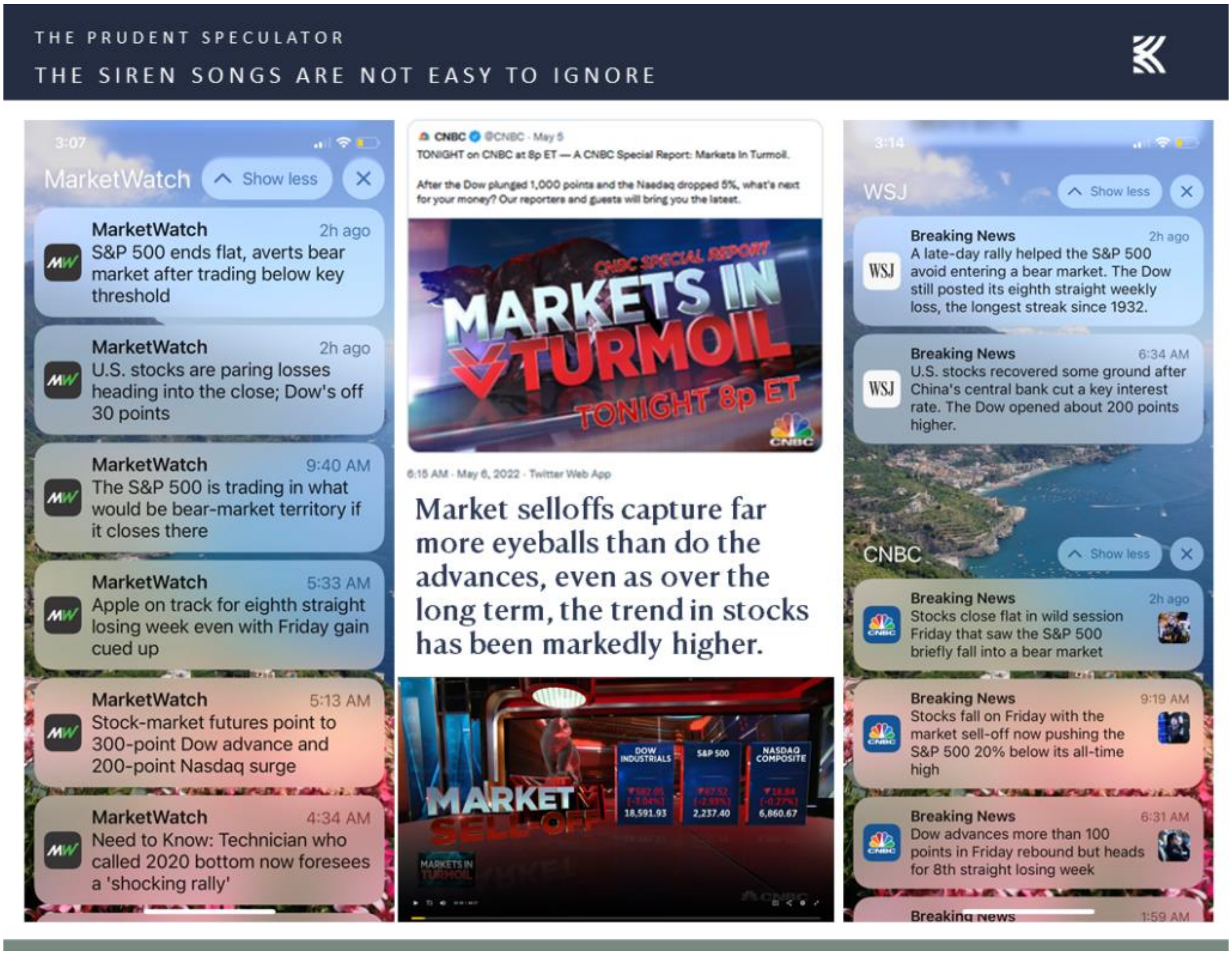
May 23, 2022

EXECUTIVE SUMMARY

Flirting with the Bear – S&P Not There (on a Closing Basis) but Growth Stocks Down More than 20%
Volatility – Far More Good than Bad Over the Long Haul
Market of Stocks – Opportunities on the Other Side of the Aisle
Perspective – Returns Since the Pandemic Lows Still Terrific
Valuations – Stocks Even More Reasonably Priced
Econ Outlook – Growth in 2022 Still the Forecast
History Lesson – Equities Have Appreciated, on Average, During Fed Tightening & Pre/Post Recessions
Sentiment – Be Greedy When Others are Fearful
Stock News – Updates on CSCO, TGT, WMT, LOW, KSS, FL & DE

Market Review

While the popular benchmark spent a fair portion of the day on Friday off more than 20% from its early-January high, no doubt exciting the financial headline writers and television producers,…



…a final-hour rally for the S&P 500 propelled the index above the 3854.90 (intraday-price basis) and 3837.25 (closing-price basis) Bear Market numbers,…

THE PRUDENT SPECULATOR

INTRADAY YES BUT NOT AN OFFICIAL S&P 500 DAILY CLOSE BEAR MARKET

While the "official" arbiters of Bear Markets will argue the plunge from the January 3 close to the May 19 close was "only" 18.68%, they forget that stocks trade when the markets are open, as the drop from the 2022 intraday high on January 4 to the intraday low on May 12 was 20.93%.

…even as the average stock remains well into Bear territory.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – CORRECTION FOR VALUE; MAJOR BEAR FOR GROWTH

The average member of the Russell 3000 and NASDAQ Composite Indexes has tumbled into a Bear Market (down 20% or more), but the Value benchmarks have held up remarkably well, especially relative to Growth.

2022 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
1/4/2022	5/20/2022	-22.32%	Russell 3000 Average Stock	11/22/2021	5/20/2022	-23.85%	NASDAQ Composite Average Stock
1/5/2022	5/20/2022	-17.09%	Dow Jones Industrial Average	11/22/2021	5/12/2022	-34.15%	S&P 500 Pure Growth Index
11/22/2021	5/20/2022	-31.93%	NASDAQ Composite Index	4/21/2022	5/20/2022	-11.85%	S&P 500 Pure Value Index
1/4/2022	5/20/2022	-21.63%	Russell 1000 Index	9/1/2021	5/20/2022	-34.64%	S&P 500 Communication Services
11/8/2021	5/12/2022	-30.82%	Russell 2000 Index	11/22/2021	5/20/2022	-37.17%	S&P 500 Consumer Discretionary
1/4/2022	5/20/2022	-21.79%	Russell 3000 Index	4/21/2022	5/20/2022	-15.11%	S&P 500 Consumer Staples Secto
1/4/2022	5/20/2022	-20.93%	S&P 500 INDEX	5/17/2022	5/19/2022	-5.37%	S&P 500 Energy Sector GICS Lev
11/22/2021	5/20/2022	-30.43%	Russell 1000 Growth Index	1/13/2022	5/20/2022	-22.86%	S&P 500 Financials Sector GICS
1/5/2022	5/20/2022	-13.39%	Russell 1000 Value Index	4/8/2022	5/12/2022	-12.74%	S&P 500 Health Care Sector GIC
11/8/2021	5/12/2022	-39.59%	Russell 2000 Growth Index	1/5/2022	5/20/2022	-18.55%	S&P 500 Industrials Sector GIC
11/8/2021	5/12/2022	-21.86%	Russell 2000 Value Index	12/28/2021	5/20/2022	-28.82%	S&P 500 Information Technology
11/22/2021	5/20/2022	-30.70%	Russell 3000 Growth Index	1/5/2022	3/8/2022	-14.26%	S&P 500 Materials Sector GICS
1/5/2022	5/20/2022	-13.65%	Russell 3000 Value Index	12/31/2021	5/12/2022	-20.80%	S&P 500 Real Estate Sector GIC
12/28/2021	5/20/2022	-29.57%	S&P 500 Growth Index	4/8/2022	5/2/2022	-9.81%	S&P 500 Utilities Sector GICS
1/5/2022	5/20/2022	-12.75%	S&P 500 Value Index				

Source Kovitz using data from Bloomberg

Although market volatility is hardly unusual,…

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%	35.2%	246	99	0.9	3/8/2022	3/29/2022
7.5%	23.7%	149	158	0.6	3/8/2022	3/29/2022
5.0%	14.8%	73	309	0.3	3/8/2022	3/29/2022

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%	-30.1%	215	39	2.4	1/3/2022	5/19/2022
-15.0%	-28.2%	188	45	2.1	1/3/2022	5/19/2022
-12.5%	-22.7%	138	72	1.3	1/3/2022	5/19/2022
-10.0%	-19.5%	101	99	0.9	3/29/2022	5/19/2022
-7.5%	-15.4%	65	158	0.6	3/29/2022	5/19/2022
-5.0%	-10.9%	37	309	0.3	3/29/2022	5/19/2022

From 02.20.28 through 05.19.22. S&P 500 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	13.3%	25.9%
Growth Stocks	9.8%	21.3%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.2%	29.3%
Long-Term Corporate Bonds	5.9%	7.7%
Long-Term Gov't Bonds	5.4%	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 03.31.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the end of each June using NYSE breakpoints via Eugene F. Fama and Kenneth R. French. Dividend payers = 30% top of Fama-French dividend payers, 40% of middle Fama-French dividend payers, and 30% bottom of Fama-French dividend payers rebalanced monthly. Non-dividend payers = Fama-French stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

…with the current skid now the 36th we have endured since the launch of *The Prudent Speculator* more than forty-five years ago,…

THE PRUDENT SPECULATOR

PERSPECTIVE: 10% UPS AND DOWNS SINCE TPS INCEPTION

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

9/12/1978	11/14/1978	-13.55%	BEAR	3/6/1978	9/12/1978	23.12%	BULL
10/5/1979	11/7/1979	-10.25%	BEAR	11/14/1978	10/5/1979	20.30%	BULL
2/13/1980	3/27/1980	-17.07%	BEAR	11/7/1979	2/13/1980	18.59%	BULL
11/28/1980	9/25/1981	-19.75%	BEAR	3/27/1980	11/28/1980	43.07%	BULL
11/30/1981	3/8/1982	-15.05%	BEAR	9/25/1981	11/30/1981	12.04%	BULL
5/7/1982	8/12/1982	-14.27%	BEAR	3/8/1982	5/7/1982	11.30%	BULL
10/10/1983	7/24/1984	-14.38%	BEAR	8/12/1982	10/10/1983	68.57%	BULL
8/25/1987	10/19/1987	-33.24%	BEAR	7/24/1984	8/25/1987	127.82%	BULL
10/21/1987	10/26/1987	-11.89%	BEAR	10/19/1987	10/21/1987	14.92%	BULL
11/2/1987	12/4/1987	-12.45%	BEAR	10/26/1987	11/2/1987	12.33%	BULL
10/9/1989	1/30/1990	-10.23%	BEAR	12/4/1987	10/9/1989	60.68%	BULL
7/16/1990	10/11/1990	-19.92%	BEAR	1/30/1990	7/16/1990	14.23%	BULL
10/7/1997	10/27/1997	-10.80%	BEAR	10/11/1990	10/7/1997	232.74%	BULL
7/17/1998	8/31/1998	-19.34%	BEAR	10/27/1997	7/17/1998	35.32%	BULL
9/23/1998	10/8/1998	-10.00%	BEAR	8/31/1998	9/23/1998	11.37%	BULL
7/16/1999	10/15/1999	-12.08%	BEAR	10/8/1998	7/16/1999	47.88%	BULL
3/24/2000	4/14/2000	-11.19%	BEAR	10/15/1999	3/24/2000	22.45%	BULL
9/1/2000	4/4/2001	-27.45%	BEAR	4/14/2000	9/1/2000	12.10%	BULL
5/21/2001	9/21/2001	-26.43%	BEAR	4/4/2001	5/21/2001	19.00%	BULL
1/4/2002	7/23/2002	-31.97%	BEAR	9/21/2001	1/4/2002	21.40%	BULL
8/22/2002	10/9/2002	-19.31%	BEAR	7/23/2002	8/22/2002	20.68%	BULL
11/27/2002	3/11/2003	-14.71%	BEAR	10/9/2002	11/27/2002	20.87%	BULL
10/9/2007	3/10/2008	-18.64%	BEAR	3/11/2003	10/9/2007	95.47%	BULL
5/19/2008	10/10/2008	-36.97%	BEAR	3/10/2008	5/19/2008	12.04%	BULL
10/13/2008	10/27/2008	-15.39%	BEAR	10/10/2008	10/13/2008	11.58%	BULL
11/4/2008	11/20/2008	-25.19%	BEAR	10/27/2008	11/4/2008	18.47%	BULL
1/6/2009	3/9/2009	-27.62%	BEAR	11/20/2008	1/6/2009	24.22%	BULL
4/23/2010	7/2/2010	-15.99%	BEAR	3/9/2009	4/23/2010	79.93%	BULL
4/29/2011	10/3/2011	-19.39%	BEAR	7/2/2010	4/29/2011	33.35%	BULL
5/21/2015	8/25/2015	-12.35%	BEAR	10/3/2011	5/21/2015	93.85%	BULL
11/3/2015	2/11/2016	-13.31%	BEAR	8/25/2015	11/3/2015	12.97%	BULL
1/26/2018	2/8/2018	-10.16%	BEAR	2/11/2016	1/26/2018	57.07%	BULL
9/20/2018	12/24/2018	-19.78%	BEAR	2/8/2018	9/20/2018	13.55%	BULL
2/19/2020	3/23/2020	-33.92%	BEAR	12/24/2018	2/19/2020	44.02%	BULL
1/3/2022	3/8/2022	-13.05%	BEAR	3/23/2020	1/3/2022	114.38%	BULL
3/29/2022	5/19/2022	-15.78%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
Average Drop		**-18.14%**		**Average Gain**		**41.47%**	

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 quickly rallied out of correction territory in March, the index closed on 5.19.22 with a 15.78% decline from the 03.29.22 interim high. Of course, a 10% setback is not unusual, given that we have now had 36 of them since the launch of *The Prudent Speculator* more than 45 years ago. Happily, there have also been 36 advances of 10% or greater, with the average gain during those periods in the green dwarfing the average loss.

…we are pleased to see Value stocks losing less than Growth of late…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – DOWNSIDE IN 2022 FAR GREATER FOR GROWTH

November 2, 2021

the Prudent Speculator

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

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

— Ayn Rand

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.

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

Russell 3000 Value Index

Advancing Markets

Minimum Rise %	Average Gain	Average # Days	Count	Frequency (in Years)	Last Start	Last End
20.0%	80.4%	865	7	2.9	3/23/2020	1/12/2022
15.0%	49.6%	447	14	1.7	3/23/2020	1/12/2022
10.0%	31.4%	252	26	0.9	6/26/2020	1/12/2022
7.5%	21.7%	147	47	0.6	3/8/2022	3/29/2022
5.0%	13.7%	69	95	0.3	3/8/2022	3/29/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-32.1%	212	7	2.9	1/17/2020	3/23/2020
-15.0%	-25.1%	172	14	1.7	1/17/2020	3/23/2020
-10.0%	-18.5%	83	27	0.9	1/12/2022	5/19/2022
-7.5%	-14.1%	54	48	0.5	3/29/2022	5/19/2022
-5.0%	-10.1%	30	96	0.3	3/29/2022	5/19/2022

From 10.19.95 through 05.19.22. 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.

Total Returns Matrix

YTD	Since 10.31.21	Name	Symbol
-24.80	-60.64	Meta Materials Inc	MMAT Equity
-41.96	-42.49	Roundhill Ball Metaverse ETF	METV Equity
-55.77	-65.99	AMC Entertainment Holdings Inc	AMC Equity
-35.53	-47.87	GameStop Corp	GME Equity
-43.24	-71.18	Robinhood Markets Inc	HOOD Equity
-39.73	-46.27	VanEck Social Sentiment ETF	BUZZ Equity
-55.16	-64.74	ARK Innovation ETF	ARKK Equity
MARKET OF STOCKS			
-13.29	-11.70	Dow Jones Industrial Average TR	DJITR Index
-11.32	-10.18	New York Stock Exchange Composite Index	NYA Index
-28.00	-31.22	Russell 2000 Total Return Growth Index	RU20GRTR Index
-13.25	**-12.80**	**Russell 2000 Total Return Value Index**	**RU20VATR Index**
-20.67	-22.27	Russell 2000 Total Return Index	RU20INTR Index
-28.77	-31.54	Russell Midcap Growth Index Total Return	RUMCGRTR Index
-10.77	**-8.05**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
-17.21	-16.83	Russell Midcap Index Total Return	RUMCINTR Index
-26.84	-25.16	Russell 3000 Total Return Growth Index	RU30GRTR Index
-9.41	**-7.21**	**Russell 3000 Total Return Value Index**	**RU30VATR Index**
-18.62	-16.70	Russell 3000 Total Return Index	RU30INTR Index
-12.82	-9.77	S&P 500 Equal Weighted USD Total Return In	SPXEWTR Index
-17.67	-14.57	S&P 500 Total Return Index	SPXT Index
BONDS			
-11.40	-11.67	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
-9.48	-9.14	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 05.20.22. Source: Kovitz using data from Bloomberg.

…even as equities of just about every categorization have taken it on the chin this year.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – RED INK BUT SIGNIFICANT DISPERSION OF RETURNS

The median stock in the Russell 3000 is off more than 20% this year, but the largest 10 companies in the index are even worse performers. Happily, less expensively priced names generally have lost less.

Market of Stocks - Russell 3000								
R3K Members	**% of Market Cap**	**Median YTD Total Return**	**Median Price to Earnings**	**Median NTM P/E**	**Median Price to Sales**	**Median Price to Book Value**	**Average Dividend Yield**	**Number of Holdings**
All 3028	100.0	**-20.9**	16.3	14.1	2.3	2.1	1.50	3028
Largest 10	25.0	**-24.5**	23.5	21.4	5.1	6.3	0.52	10
Top 11-20	8.0	**-11.1**	18.8	17.5	3.0	4.3	2.16	10
Top 21-30	5.5	**-4.2**	24.7	18.9	4.6	8.2	2.53	10
Top 31-40	4.2	**-24.9**	26.1	21.9	3.3	4.2	1.60	10
Top 41-50	3.6	**-15.6**	18.8	18.3	3.7	5.1	1.85	10
Largest 50	46.2	**-17.8**	23.3	19.7	4.4	5.7	1.73	50
Next 950	47.8	**-15.7**	19.6	16.5	2.7	3.2	1.66	950
Bottom 2028	6.0	**-25.2**	13.7	12.2	2.0	1.7	1.42	2028
Market of Stocks - Russell 3000 Value								
All Value	100.0	**-16.0**	15.1	13.1	2.1	1.8	1.85	2274
Largest 10 Value	17.9	**-0.7**	14.6	11.9	2.9	2.9	2.47	10
Market of Stocks - Russell 3000 Growth								
All Growth	100.0	**-28.7**	19.2	16.6	2.5	3.2	0.86	1732
Largest 10 Growth	42.6	**-26.5**	27.3	22.7	5.6	9.8	0.36	10

From 12.31.21 - 05.20.22. Source: Kovitz using data from Bloomberg.

Certainly, we are not thrilled about the red ink in 2022 and we concede that our bargain hunting does not always fit into a traditional-Value box…

We are equal opportunity stock pickers as we do not discriminate in our selection of what we believe to be companies that have significant capital appreciation and income potential, though even stocks that may fall into the Growth bucket must be inexpensive by our analytics in order to qualify for consideration.

TPS Russell 3000 Growth Index Members

Symbol	Common Stock	05.20.22 Price	Target Price	52-Week High	% Below High	52-Week Low	% Above Low	Sector	P/E	P/S	P/TBV	ROCE	EV/ EBITDA	FCF Yld	Debt/ TE (%)	Div Yld	Mkt Cap
AAPL	Apple	$137.59	$189.88	$182.94	-25%	$123.13	12%	Technology Hardware	22.4	5.8	33.0	149.3	16.5	4.7	153%	0.7%	2,182,895
ABT	Abbott Laboratories	$113.24	$151.68	$142.60	-21%	$104.63	8%	Health Care Equip/Srvcs	20.1	4.5	nmf	22.4	16.4	4.1	nmf	1.7%	195,493
AMGN	Amgen	$247.50	$297.79	$258.45	-4%	$198.64	25%	Pharma, Biotech	14.0	5.0	nmf	111.7	14.2	6.0	nmf	3.1%	131,662
AVGO	Broadcom	$543.19	$735.38	$677.76	-20%	$455.53	19%	Semiconductors	18.2	7.8	nmf	38.1	16.3	6.1	nmf	3.1%	215,123
CAH	Cardinal Health	$55.80	$80.57	$64.53	-14%	$45.85	22%	Health Care Equip/Srvcs	11.7	0.1	nmf	nmf	82.8	2.8	nmf	3.6%	15,052
CAT	Caterpillar	$197.82	$286.41	$246.69	-20%	$179.67	10%	Capital Goods	18.3	2.0	10.8	38.6	11.9	2.7	258%	2.3%	104,413
CE	Celanese	$150.73	$220.78	$176.50	-15%	$132.26	14%	Materials	7.4	1.8	6.5	50.8	8.0	8.7	134%	1.8%	16,161
COHU	Cohu	$27.94	$56.27	$39.86	-30%	$25.06	11%	Semiconductors	9.4	1.6	2.7	19.7	4.4	6.0	25%	0.0%	1,325
DAL	Delta Air Lines	$38.64	$66.71	$48.54	-20%	$29.75	30%	Transportation	nmf	0.7	nmf	29.7	10.7	-0.9	nmf	0.0%	24,335
DE	Deere & Co	$313.31	$500.40	$446.76	-30%	$307.64	2%	Capital Goods	16.4	2.1	7.0	35.0	10.1	1.3	236%	1.3%	96,119
DIS	Walt Disney	$102.42	$175.63	$187.58	-45%	$99.47	3%	Media & Entertainment	30.9	2.4	nmf	3.0	22.7	0.8	nmf	0.0%	184,771
ENS	EnerSys	$62.80	$129.36	$100.23	-37%	$59.93	5%	Capital Goods	13.7	0.8	6.5	9.9	10.3	-2.3	311%	1.1%	2,590
EOG	EOG Resources	$122.05	$147.29	$132.35	-8%	$60.86	101%	Energy	11.1	3.3	3.3	20.7	7.8	5.4	18%	2.5%	70,994
FB	Meta Platforms	$193.54	$405.42	$384.33	-50%	$169.00	15%	Media & Entertainment	14.6	4.4	5.1	29.1	9.2	7.4	13%	0.0%	518,017
FDX	FedEx	$200.90	$358.60	$319.90	-37%	$192.82	4%	Transportation	10.7	0.6	2.9	22.1	8.3	5.6	196%	1.5%	51,377
GLW	Corning	$33.13	$56.28	$44.30	-25%	$32.24	3%	Technology Hardware	15.3	1.9	3.2	9.2	9.2	5.3	85%	3.3%	27,521
GOOG	Alphabet	$2,186.26	$3,686.01	$3,042.00	-28%	$2,127.46	3%	Media & Entertainment	19.1	5.2	6.1	30.8	13.5	4.8	11%	0.0%	1,408,298
GS	Goldman Sachs Group	$306.80	$462.24	$426.16	-28%	$293.90	4%	Diversified Financials	6.0	nmf	1.1	18.9	nmf	nmf	nmf	2.6%	108,104
JBL	Jabil Inc	$57.45	$85.81	$72.11	-20%	$52.43	10%	Technology Hardware	9.1	0.3	5.6	36.5	4.9	4.0	193%	0.6%	7,960
JWN	Nordstrom Inc	$21.18	$42.45	$38.48	-45%	$18.65	14%	Retailing	20.0	0.2	10.2	40.2	5.8	5.9	1328%	0.9%	3,311
KLIC	Kulicke & Soffa Inds	$49.77	$90.34	$75.29	-34%	$45.01	11%	Semiconductors	7.9	1.7	2.9	49.6	3.9	11.8	3%	1.4%	2,906
LMT	Lockheed Martin	$424.15	$503.39	$479.99	-12%	$324.23	31%	Capital Goods	18.7	1.7	nmf	76.1	12.0	6.4	nmf	2.7%	112,239
LOW	Lowe's Cos	$184.69	$270.25	$263.31	-30%	$179.22	3%	Retailing	15.1	1.3	nmf	nmf	10.7	5.5	nmf	1.7%	119,270
LRCX	Lam Research	$474.12	$752.84	$731.85	-35%	$442.53	7%	Semiconductors	19.9	3.9	14.9	79.7	12.0	5.3	114%	1.3%	63,663
MDC	MDC Holdings	$36.95	$77.10	$58.92	-37%	$34.56	7%	Consumer Durables	4.4	0.5	1.0	24.7	4.2	-2.4	61%	5.5%	2,590
MMM	3M	$143.83	$219.02	$206.81	-30%	$139.74	3%	Capital Goods	14.4	2.3	nmf	39.0	10.8	6.1	nmf	4.2%	81,512
MRNA	Moderna	$136.25	$274.98	$497.49	-73%	$119.01	14%	Pharma, Biotech	4.0	2.4	3.2	140.0	2.7	23.7	4%	0.0%	53,375
MSFT	Microsoft	$252.56	$378.90	$349.67	-28%	$243.00	4%	Software & Services	27.6	9.8	22.4	48.7	19.0	3.4	87%	1.0%	1,862,017
MU	Micron Technology	$68.90	$128.14	$98.45	-30%	$65.67	5%	Semiconductors	8.0	2.5	1.7	20.4	4.4	6.3	16%	0.6%	74,727
NLOK	NortonLifeLock	$24.31	$35.14	$30.92	-21%	$23.47	4%	Software & Services	13.9	5.0	nmf	nmf	13.9	6.8	nmf	2.1%	13,953
NTAP	NetApp	$66.64	$104.95	$96.82	-31%	$64.58	3%	Technology Hardware	13.2	2.4	nmf	148.8	8.7	7.8	nmf	3.1%	14,545
ORCL	Oracle	$68.63	$111.15	$106.34	-35%	$66.72	3%	Software & Services	14.0	4.4	nmf	nmf	17.0	3.4	nmf	1.9%	180,808
QCOM	Qualcomm	$131.60	$230.75	$193.58	-32%	$122.17	8%	Semiconductors	12.1	3.8	30.6	107.5	10.5	4.9	254%	2.3%	143,511
SYF	Synchrony Financial	$32.46	$58.28	$52.49	-38%	$31.37	3%	Diversified Financials	4.4	nmf	1.6	32.2	nmf	nmf	nmf	2.8%	16,005
TGT	Target Corp	$155.36	$266.91	$268.98	-42%	$150.89	3%	Retailing	12.9	0.7	7.1	45.5	8.3	2.7	158%	2.3%	71,189
WM	Waste Management	$154.50	$181.93	$170.18	-9%	$136.97	13%	Commercial/Pro Services	30.4	3.5	nmf	26.2	15.2	3.7	nmf	1.7%	63,872

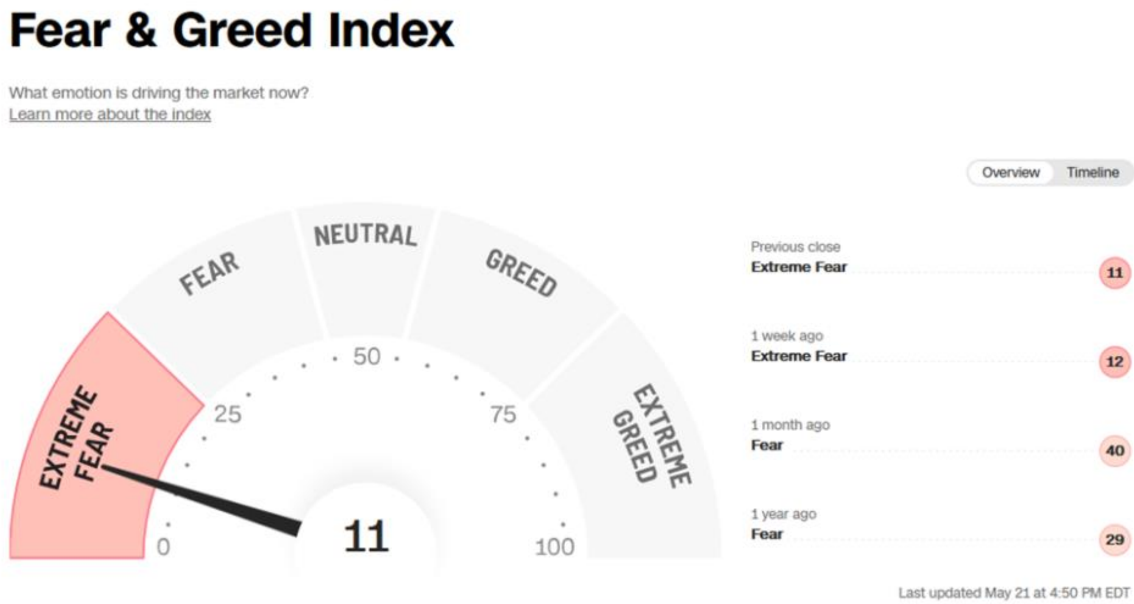
As of 05.20.22. nmf=Not meaningful. ROCE = Return on Common Equity. TBV = Tangible book value. EV/EBITDA = Enterprise value to earnings before interest, taxes, depreciation and amortization. FCF Yield = Free Cash Flow Yield

…but we find the heightened level of investor angst these days somewhat surprising,…

THE PRUDENT SPECULATOR

FEAR & GREED INDEX…BE GREEDY WHEN OTHERS ARE FEARFUL

With many stocks well into Bear Market territory, folks are very scared. The *CNNMoney* Fear & Greed Index is deep into the Extreme Fear zone. Only Market Volatility is Neutral of the seven Fear & Greed Indicators, with Stock Price Breadth, Market Momentum and Safe Haven Demand the most pessimistic of the other six measures.



…given that equities enjoyed fantastic returns last year and the gains since the Pandemic lows are still massive.

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With tremendous volatility witnessed of late as traders react and overreact to developments around the War in Ukraine, comments from the Federal Reserve, economic statistics and corporate profit announcements, we like that the Value indexes have held up far better than Growth. The divergence in returns is not unlike what was seen following the Bursting of the Tech Bubble.

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	-2.78	-13.29	-6.53	21.61	75.56	32.36	29.79	67.70	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	-1.09	-11.32	-5.63	25.70	80.83	38.30	28.63	48.35	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	-3.77	-27.19	-15.51	5.30	68.30	22.94	51.37	95.90	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	-1.43	-28.00	-26.99	-4.77	54.12	9.72	10.92	34.35	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	-0.72	-13.25	-10.14	43.27	109.12	63.77	27.51	37.65	Russell 2000 Value	RU20VATR Index
-3.02	2.49	-1.05	-20.67	-18.79	17.21	81.31	34.61	20.70	38.24	Russell 2000	RU20INTR Index
-11.75	-20.15	-2.56	-28.77	-20.78	-4.55	58.30	10.98	22.90	60.59	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33	-1.76	-10.77	-3.64	36.63	108.85	55.26	33.97	47.58	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	-2.01	-17.21	-9.82	20.92	91.64	38.75	33.19	57.98	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	-3.98	-26.84	-12.20	6.88	71.49	24.18	48.26	96.64	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33	-1.75	-9.41	-3.19	34.52	88.02	45.10	31.40	49.65	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	-2.82	-18.62	-7.76	19.87	80.83	34.60	41.54	74.30	Russell 3000	RU30INTR Index
9.64	-0.39	-2.30	-12.82	-3.81	34.69	103.67	51.15	43.94	71.30	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	-3.00	-17.67	-4.86	22.09	80.33	35.33	44.45	79.20	S&P 500	SPXT Index
-22.08	-12.73	-3.95	-26.18	-8.84	11.27	74.13	27.39	46.95	94.74	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	-2.12	-8.16	-1.49	34.01	82.23	41.60	36.79	57.47	S&P 500 Value	SPTRSVX Index
3.18	1.57	0.99	-11.29	-13.02	-12.77	-4.94	-9.01	-3.50	0.66	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	0.59	-9.18	-8.11	-9.58	-4.85	-8.56	1.01	6.06	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 05.20.22. Source Kovitz using data from Bloomberg

More importantly, from where we sit, equity valuations in general are very reasonable,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though many dismiss the Fed Model, investing is always a choice of this or that, and we like today's rich (and rising) earnings yield (5.12% vs. 2.78% 10-Year) and S&P 500 dividend yield of 1.61%.

…while we sleep well at night, given the inexpensive price metrics and generous dividend yields of our broadly diversified portfolios of what we believe to be undervalued stocks.

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	12.2	10.9	0.9	2.2	2.6
ValuePlus	13.0	11.1	1.2	2.2	2.3
Dividend Income	11.7	11.0	0.8	2.1	3.1
Focused Dividend Income	13.1	11.8	1.1	2.3	2.8
Focused ValuePlus	12.3	12.3	1.3	2.5	2.5
Small-Mid Dividend Value	9.9	9.3	0.5	1.5	2.7
Russell 3000	20.6	17.3	2.2	3.6	1.6
Russell 3000 Growth	27.9	23.2	3.4	9.0	0.9
Russell 3000 Value	16.7	14.1	1.6	2.3	2.2
Russell 1000	19.9	17.3	2.3	3.7	1.6
Russell 1000 Growth	26.5	22.7	3.8	9.7	0.9
Russell 1000 Value	16.2	14.2	1.7	2.4	2.2
S&P 500 Index	19.5	17.2	2.4	3.9	1.6
S&P 500 Growth Index	22.4	20.2	4.2	7.1	0.9
S&P 500 Value Index	17.5	15.1	1.7	2.8	2.2
S&P 500 Pure Value Index	11.1	9.9	0.7	1.4	2.5

As of 05.21.22. 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.

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We respect that there is plenty of uncertainty today,…

THE PRUDENT SPECULATOR

STOCK PRICES MOVE UP AND DOWN: SO TOO PUNDIT RATIONALIZATIONS

Economists & Strategists – 05.17.22

"Given this show of strength from consumers, speculation that the U.S. economy is in danger of an imminent plunge into recession look badly misplaced."

"The retail sales report really gave a boost of confidence to investors that consumers are doing well. As long as consumers stay strong the chance of us going into recession in 2022 are very low.

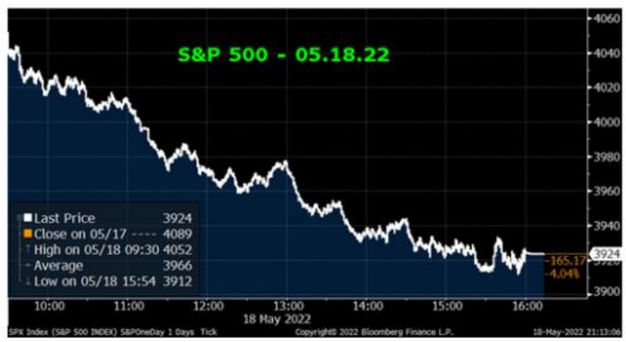
"Today's number suggests that domestic demand momentum is very robust."

Economists & Strategists – 05.18.22

"I think that people involved in the market are now going to be even more concerned with inflation, and the pressures that it brings to things like margins."

"Wall Street was anticipating that we were going to see a peak of inflation a month ago. Earnings season is telling us that these pricing pressures are not easing and that consumers should expect higher prices moving forward."

"Our expectation is that growth will start to slow down over the next few months."



…but there is never any certainty, and the equity markets have been climbing a proverbial wall of worry for decades.

THE PRUDENT SPECULATOR

THE SECRET TO SUCCESS IN STOCKS IS NOT TO GET SCARED OUT OF THEM

Ukraine has joined COVID-19, inflation, supply chain issues, rising interest rates and the Fed as bogeymen spooking investors, but history is filled with plenty of frightening events, yet equities have provided handsome rewards…for those who stick with them.

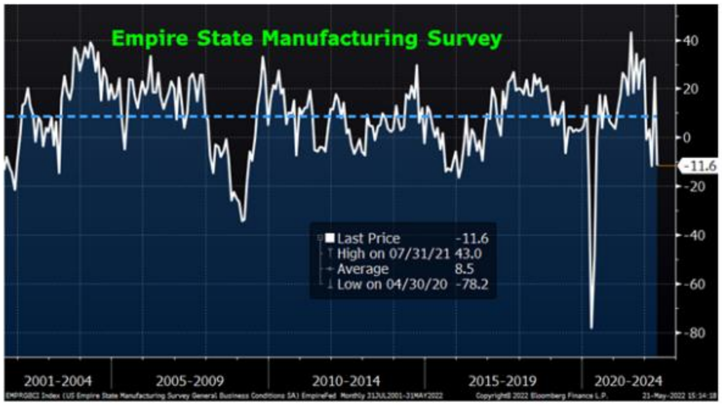
Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	44847%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	25909%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	23275%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9056%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8459%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9909%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7194%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5505%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4082%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5071%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4133%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5474%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3608%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3872%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3166%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2310%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1494%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1635%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1134%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	936%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	848%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	780%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	754%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	672%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	345%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	307%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	217%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	191%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	304%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	326%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	257%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	226%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	477%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5357%**

As of 5.20.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

To be sure, the health of the economy is top of mind, with the latest reads on manufacturing coming in well below estimates,…

THE PRUDENT SPECULATOR

EAST COAST FACTORY ACTIVITY STUMBLES IN MAY



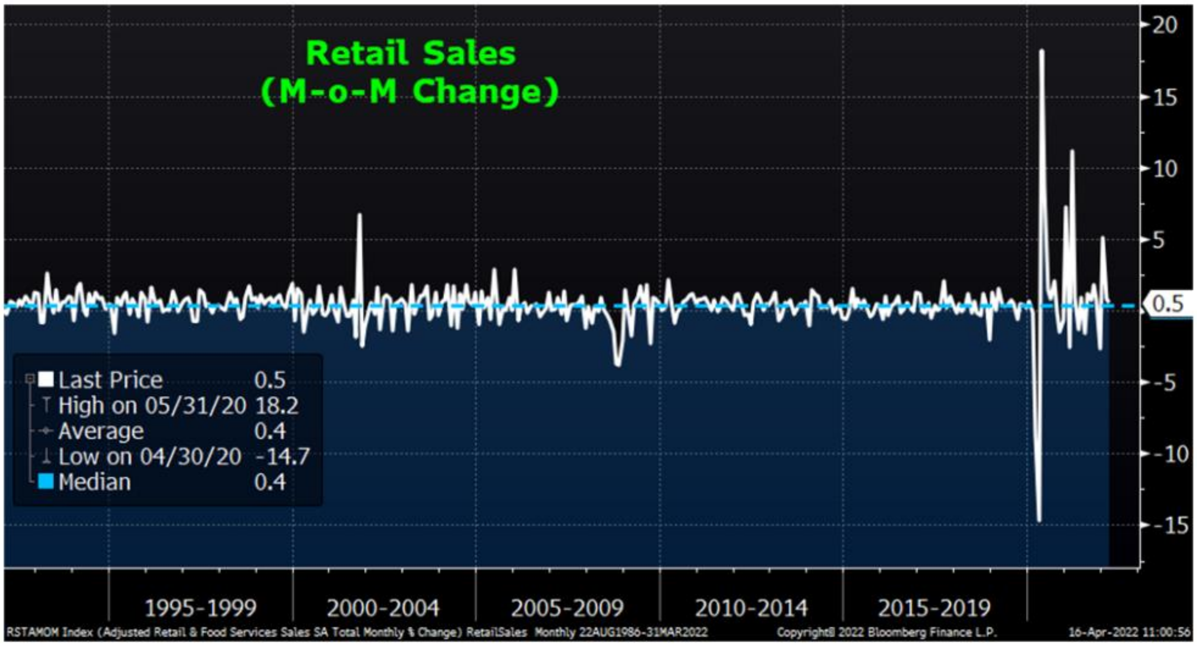
The Empire State gauge of manufacturing activity in the New York area plunged in May to a much-weaker-than-expected minus 11.6, some 28 points below forecasts. The Philadelphia Fed's May measure of manufacturing activity in the mid-Atlantic region also came well below expectations, skidding to 2.6 from 17.6 the month prior. No doubt, supply chain constraints and higher prices for inputs weighed on the numbers.

…but the retail sales tally was solid,…

THE PRUDENT SPECULATOR

RETAIL SALES RISE, SUGGESTING A SOLID ECONOMIC OUTLOOK

While March's gain was revised up to 1.4% from the 0.7% advance initially reported, retail sales for April rose just 0.9%, just below estimates for a 1.0% rise, but retail sales excluding vehicles came in better than expected with a 0.4% advance.



…the jobs market remains robust,…

THE PRUDENT SPECULATOR

JOBLESS FILINGS AND CONTINUING CLAIMS NEAR/AT 50+ YEAR LOWS

While higher than recent readings with a 1-handle, yet still coming in near the lowest levels since 1969 when the work force was much smaller, new filings for unemployment benefits for the period ended May 14 were a seasonally adjusted 218,000, up from a revised 197,000 the week prior. Continuing claims filed through state programs edged down to 1.32 million, the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

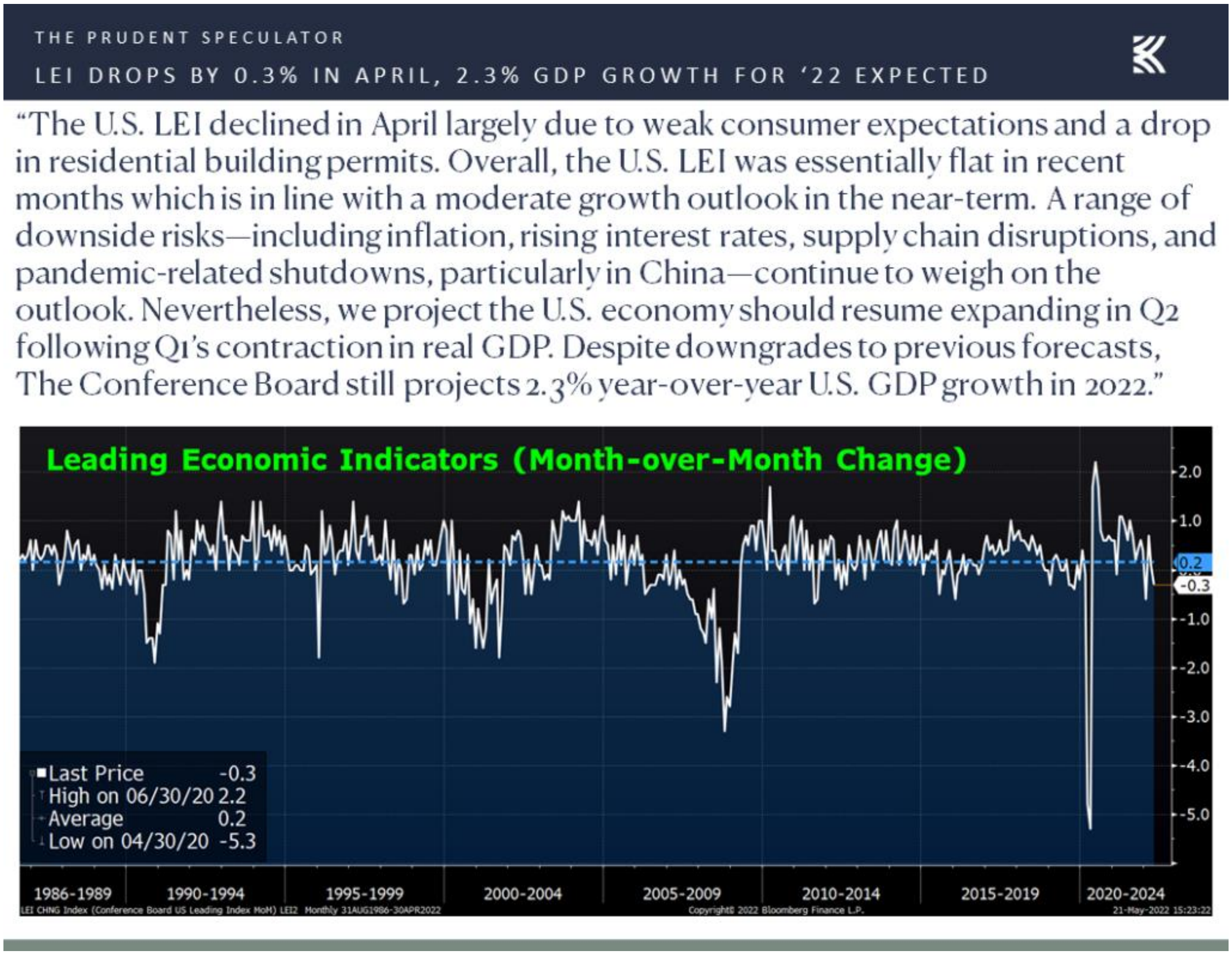
…and other numbers out last week were fairly good.

THE PRUDENT SPECULATOR

SOLID ECONOMIC READINGS

Industrial production jumped 1.1% in April, easily beating projections of a 0.5% advance and rising from the March reading of a 0.9% gain, with capacity utilization of 79.0% coming in better than expectations. Elevated costs for building materials, high home prices and rising mortgage rates acting as headwinds, ground was broken on new homes last month at a still hefty seasonally adjusted annual rate of 1.72 million units, with building permits holding steady vs. March.

True, the forward-looking Leading Economic Indicators retreated in April, but the keeper of that index is still projecting that real (inflation-adjusted) U.S. GDP growth will be 2.3% this year,…

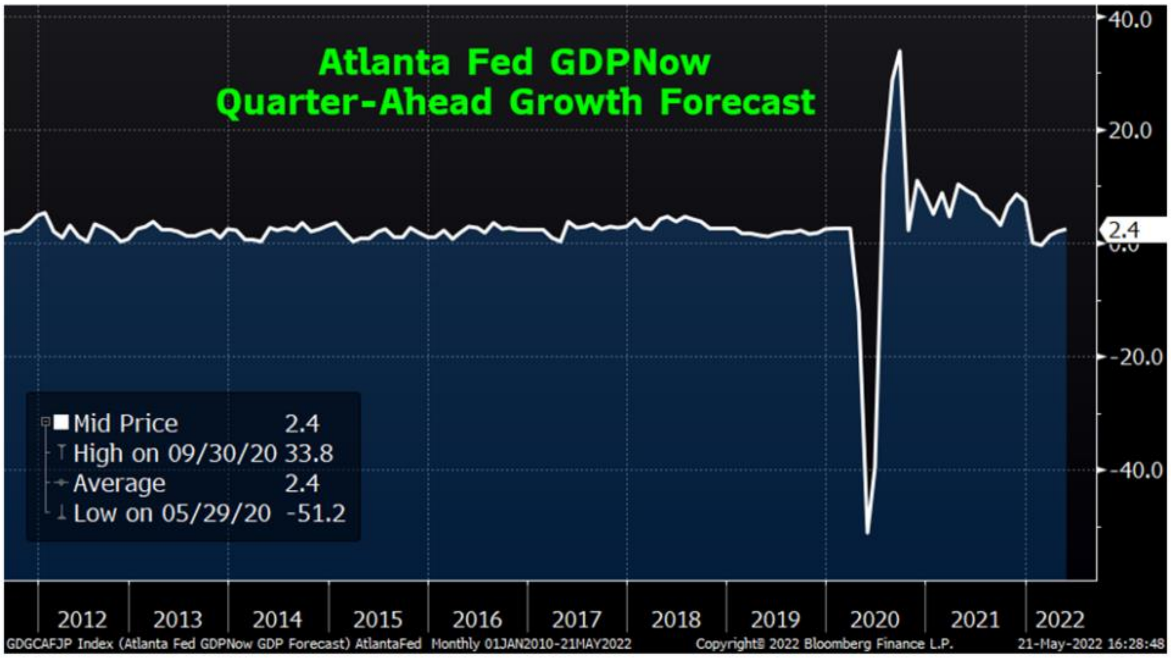


…while the projection for Q2 GDP growth improved last week,…

THE PRUDENT SPECULATOR

Q2 U.S. GDP GROWTH PROJECTION ROSE AGAIN LAST WEEK

While Q1 2022 saw a 1.4% contraction in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, the Atlanta Fed's current projection for Q2 2022 real GDP growth on an annualized basis stands at 2.4%.



…and the outlook for corporate profit growth this year and next remains upbeat.

THE PRUDENT SPECULATOR

VERY GOOD EPS IN Q1 '22 AND '22/'23 ESTIMATES ARE STRONG

Q1 earnings reporting season generally has been terrific in terms of the results, even as many stocks sold off sharply on the news. 76.1% of the 473 S&P 500 companies to have announced have beat EPS expectations and an impressive 66.5% 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	$65.38	$248.16
9/30/2023	$63.52	$243.22
6/30/2023	$60.76	$238.72
3/31/2023	$58.50	$233.05
12/31/2022	$60.44	$224.26
9/30/2022	$59.02	$220.55
6/30/2022	$55.09	$213.55
3/31/2022	$49.71	$210.51
ACTUAL		
12/31/2021	$56.73	$208.21
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

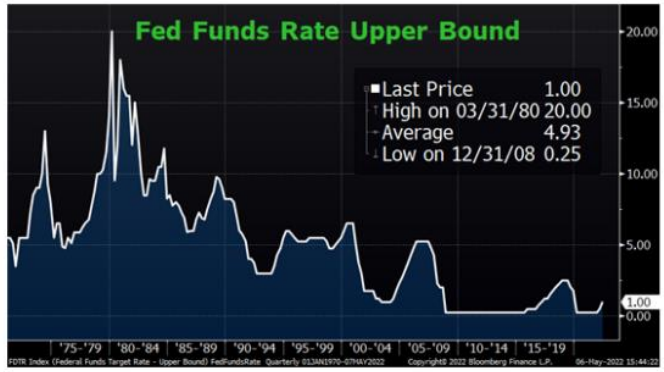
Source: Standard & Poor's. As of 5.19.22

No doubt, eyes are also on the Federal Reserve as Chair Jerome H. Powell said last week, "Restoring price stability is an unconditional need. It is something we have to do. There could be some pain involved." We also heard from Federal Reserve Bank of St. Louis President James Bullard who reiterated that the U.S. central bank is on track for half-percentage-point rate rises at the next couple of FOMC Meetings.

THE PRUDENT SPECULATOR

FED LIFTOFF HAS BEGUN – INTEREST RATES STILL HISTORICALLY VERY LOW

For the first time since 2000, the Federal Reserve hiked its target for the Fed Funds rate by 50 basis points (0.5%) and suggested that similar-sized increases are "on the table" for upcoming FOMC Meetings in June and July. The move was well telegraphed, but given stubbornly high inflation readings, the Fed Funds futures are suggesting that there will be another 175 to 200 basis points (1.75% to 2.0%) of increases by year end, though the resulting rate (2.75% to 3.0%) would still be well below the historical upper bound average of 4.93%.



We understand that a less accommodative Fed is perceived to be a major headwind for stocks, but equities have performed fine, on average, during prior tightening cycles.

Rates Change and Equities Rise

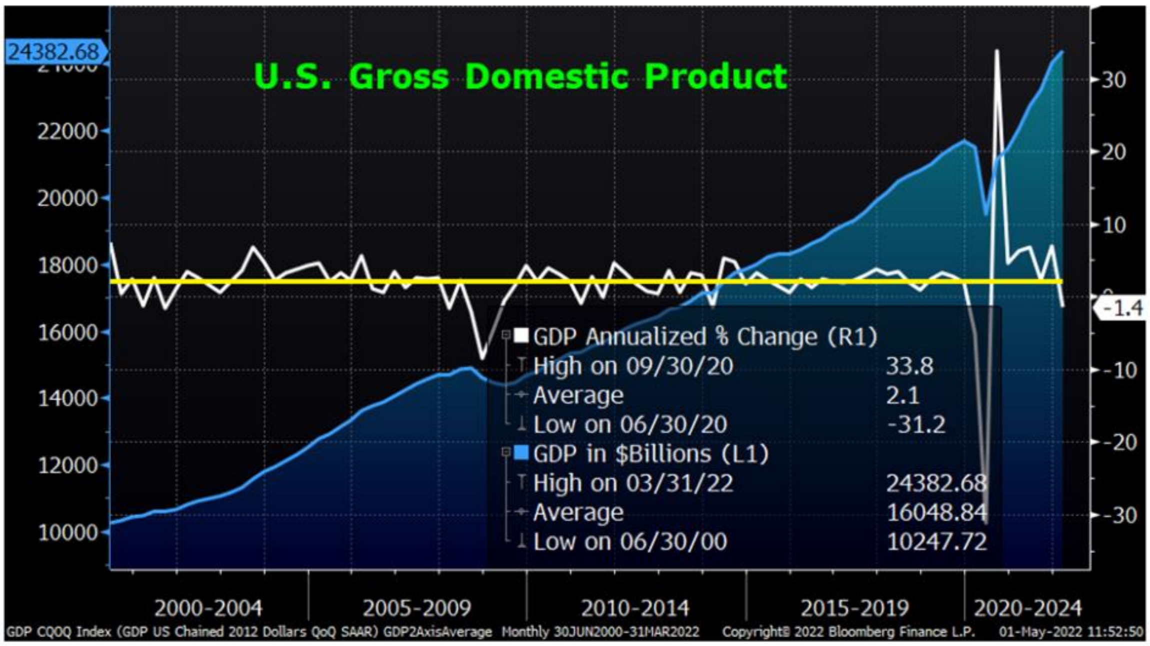
Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977	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%**

Time will tell how this Fed Tightening plays out but we note that Mr. Bullard also remarked last week, “The economic outlook looks good with above trend growth likely for this year and next, amid a super strong job market.” Mr. Powell echoed those comments, “This is a strong economy and we think it’s well positioned to withstand less accommodative monetary policy, tighter monetary policy. There could be some pain involved to restoring price stability, but we think we can maintain a strong labor market.”

THE PRUDENT SPECULATOR

HUGE 6.5% JUMP IN NOMINAL GDP, BUT REAL GDP CONTRACTS BY 1.4%

First quarter 2022 real (inflation-adjusted) domestic economic growth came in much weaker than expected at a 1.4% contraction on an annualized basis, even as the current-dollar nominal GDP figure of $24.4 trillion soared by 6.5% on an annualized basis to an all-time high.



There is no assurance that the Fed will be able to engineer a so-called soft landing, but Chair Powell added, “The fact that everyone is so strong going into this should hopefully provide a cushion such that whatever recession there is, if there is one, is short and not all that deep.” And, we note that even if we could predict when the next recession will hit, market history argues that we should still stick with equities, especially Value stocks.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST)

As the saying goes, the stock market (and economists) has predicted nine of the last five recessions, but the 15 prior instances of actual negative economic growth illustrate that long-term-oriented investors (on average) should stay invested (in Value, preferably) no matter what.

U.S. Recession Commencement (per NBER) & Equity Returns

S&P 500 and Fama/French Value Performance

Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR	To Present S&P 500 TR	To Present FF Value TR
51.9%	30.8%	August 1929	-32.6%	-32.0%	-73.5%	-64.9%	-71.1%	-61.4%	-58.0%	-47.7%	303088%	8521082%
18.2%	42.6%	May 1937	-39.3%	-55.8%	-33.2%	-55.1%	-32.5%	-44.3%	53.7%	142.7%	563244%	7959783%
26.3%	54.4%	February 1945	26.0%	42.2%	12.0%	28.5%	64.3%	75.7%	379.2%	468.6%	405944%	3841277%
4.0%	4.6%	November 1948	19.2%	12.4%	101.8%	108.9%	145.2%	130.7%	542.0%	584.7%	329726%	2785777%
3.1%	4.7%	July 1953	31.9%	25.6%	128.9%	118.0%	136.5%	138.2%	308.5%	381.9%	136236%	1168629%
-1.2%	-0.4%	August 1957	10.0%	16.4%	40.2%	55.0%	55.1%	77.9%	188.9%	418.4%	62559%	552669%
-2.4%	-6.4%	April 1960	24.2%	29.0%	41.7%	51.5%	92.4%	131.0%	107.7%	268.9%	47112%	374505%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	40.3%	-11.3%	-7.3%	77.0%	267.9%	20279%	95184%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.1%	23.7%	142.4%	182.3%	719.9%	17132%	82958%
20.6%	31.3%	January 1980	19.5%	12.3%	49.5%	80.4%	102.4%	183.5%	342.4%	480.7%	10740%	23835%
13.0%	22.9%	July 1981	-13.3%	-0.8%	34.0%	78.6%	127.9%	217.1%	343.5%	408.6%	8655%	18731%
6.5%	-6.9%	July 1990	12.7%	9.9%	38.2%	76.0%	83.2%	129.3%	407.4%	424.9%	2125%	3969%
-21.7%	17.0%	March 2001	0.2%	14.6%	1.9%	33.8%	21.4%	83.4%	38.3%	96.0%	436%	562%
5.6%	-2.9%	December 2007	-37.0%	-38.2%	-8.3%	-14.9%	8.6%	0.9%	125.9%	117.4%	277%	238%
8.2%	-9.7%	February 2020	31.3%	38.8%							45%	75%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**43.8%**	**53.3%**	**85.5%**	**217.1%**	**338.1%**	**127173%**	**1695285%**

S&P 500 as of 4.29.22. FF Value as of 3.31.22. Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

*****

We are braced for additional downside volatility, but we will patiently ride through near-term turbulence, as we continue to believe that time in the market trumps market timing,…

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT

Per data analytics firm DALBAR, equity fund investors had awful relative returns in 2021, gaining only 18.4% on average, compared to a 28.7% return for the S&P 500, for a whopping 1030 basis point (10.3%) difference in performance. The longer-term historical numbers are even worse for bonds as Fixed Income fund investors had an annual return 500 basis points lower than the U.S. Aggregate Bond index over the past three decades.

Individual Investor Returns vs. Broad Benchmarks

	Stocks			Bonds			Inflation
Time Period	Average Equity Investor Return	S&P 500 Return	Difference	Average Bond Investor Return	U.S. Aggregate Bond Index Return	Difference	U.S. Consumer Price Index
1 Year	18.4%	28.7%	-10.3%	-1.6%	-1.5%	-0.1%	7.0%
3 Years	21.6%	26.1%	-4.5%	1.7%	4.8%	-3.1%	3.5%
5 Years	14.8%	18.5%	-3.7%	0.8%	3.6%	-2.8%	2.9%
10 Years	13.4%	16.6%	-3.2%	0.4%	2.9%	-2.5%	2.2%
20 Years	8.1%	9.5%	-1.4%	0.4%	4.3%	-3.9%	2.3%
30 Years	7.1%	10.7%	-3.6%	0.3%	5.3%	-5.0%	3.4%

From 12.31.1984 through 12.31.2021. Annualized returns. SOURCE: Kovitz using data from DALBAR and Bloomberg Finance L.P.

…while we think that investors should follow the lead of legendary value investor Warren Buffet,…

WALL STREET HOLDS A SALE…AND THE ORACLE GOES SHOPPING

BUSINESS & FINANCE

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S&P 4008.01 ▼ 0.39% S&P FIN ▼ 0.78% S&P IT ▼ 0.91% DJ TRANS ▼ 0.84% WSJ $ IDX ▼ 0.18% 2-YR. TREAS. yield 2.568% NIKKEI (Midday) 26601.03 ▲ 0.20% See more at WSJ.com/Markets

Buffett Buys Stocks as Markets Fall

By Akane Otani

The stock market's selloff has been bad news for most investors.

Not for Warren Buffett and his team.

Mr. Buffett's **Berkshire Hathaway** Inc. has used the slump as an opportunity to increase spending on stocks, deploying tens of billions of dollars the past couple of months after ending 2021 with a near-record cash pile.

The Omaha, Neb., company bought 901,768 shares of **Occidental Petroleum** Corp. last week, according to a regulatory filing. The move makes Occidental, in which Berkshire began buying shares in late February, one of its 10 biggest holdings.

In the past few months, Berkshire has also boosted its stake in **Chevron** Corp., placed a merger-arbitrage bet on **Activision Blizzard** Inc. bought shares of **HP** Inc., **Citigroup** Inc. and **Ally Financial** Inc., and continued adding to its position in **Apple** Inc., which remained its biggest stockholding.

Meanwhile, it exited from its position in **Wells Fargo** & Co., formerly one of its top stock holdings and a part of the Berkshire portfolio since 1989.

Investors got a look at what Berkshire has been buying and selling when it filed what is known as Form 13-F with the Securities and Exchange Commission on Monday. The SEC requires all institutional investors that manage more than $100 million to file the form within 45 days of the end of each quarter. Because institutions must disclose their equity holdings on the form, as well as the size and market value of each position, investors often use 13-Fs to gauge how large money managers are playing the stock market.

Mr. Buffett, an adherent of value investing, has long advised that investors "be greedy when others are fearful." That philosophy was likely difficult to practice for much of the past two years, during which investors' mood largely seemed anything but fearful. Now, that the market is slumping, Berkshire is in a prime position to add to its mammoth stock portfolio, investors say.

"Cash is dry powder, and he has a lot of it," said Rupal Bhansali, chief investment officer for global equities at Ariel Investments, of Mr. Buffett. Ms. Bhansali manages Ariel's global mutual

Please turn to page B2

Berkshire holdings Occidental and Chevron have both soared past the S&P 500 this year.

Share-price and index performance, year to date

Berkshire Hathaway's biggest holdings, ranked by market value*

Apple	$155.6B
Bank of America	$41.6B
American Express	$28.4B
Chevron	$25.9B

*Data are as of first quarter 2022

Sources: FactSet (performance); the company (holdings)

Crypto's Plunge Punishes Alternative Portfolios

By Gregory Zuckerman

Cryptocurrency prices are moving in lockstep with stocks and bonds like never before, punishing those who bought bitcoin and other digital assets in part to diversify their investment holdings.

The three-month correlation between the cryptocurrencies bitcoin and ether and the major U.S. stock indexes hit its highest level on record last week, according to Dow Jones Market Data. That level, between 0.67 and 0.78, is more than triple the average correlation between crypto and the S&P 500 from 2019 to 2021. A correlation of 1 suggests the markets are moving in lockstep, while 0 says they aren't related. The one- and two-month correlations are at record levels.

The day of that record correlation, bitcoin dropped 10% and the Nasdaq Composite Index fell more than 4%, marking its steepest three-day point decline on record. Though bitcoin and other digital assets have long been viewed as among the riskiest investments in markets, analysts and portfolio managers say the depth of crypto declines this year and their tendency to echo other riskier assets such as stocks potentially could limit their adoption by

The stock market's selloff has been bad news for most investors.

Not for Warren Buffett and his team.

Mr. Buffett's Berkshire Hathaway Inc. has used the slump as an opportunity to increase spending on stocks, deploying tens of billions of dollars the past couple of months after ending 2021 with a near-record cash pile.

…who says folks should be greedy when others are fearful!

THE PRUDENT SPECULATOR

AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -24.4

AAII Bull-Bear Spread

Decile	Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Week Arithmetic Average TR	R3K Next 1-Week Geometric Average TR	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
	Below & Above Median Bull Bear Spread = 7.74										
BELOW	-54.0	7.7	907	0.24%	0.21%	1.19%	1.06%	3.54%	3.15%	6.92%	6.17%
ABOVE	7.7	62.9	907	0.17%	0.15%	0.53%	0.44%	1.97%	1.72%	4.70%	4.22%
	Ten Groupings of 1814 Data Points										
1	-54.0	-15.8	182	0.43%	0.37%	2.00%	1.77%	5.39%	4.86%	9.86%	8.66%
2	-15.7	-8.0	182	0.35%	0.32%	1.02%	0.89%	3.58%	3.21%	6.89%	6.12%
3	-8.0	-1.9	180	0.31%	0.28%	1.43%	1.33%	3.43%	3.05%	7.51%	6.87%
4	-1.8	3.0	196	0.11%	0.07%	1.02%	0.92%	2.89%	2.53%	6.18%	5.66%
5	3.0	7.7	167	0.02%	-0.01%	0.44%	0.34%	2.33%	2.08%	4.00%	3.45%
6	7.7	12.0	189	0.11%	0.09%	0.54%	0.43%	1.83%	1.60%	5.27%	4.87%
7	12.0	16.3	174	0.19%	0.17%	0.54%	0.45%	2.28%	2.02%	4.91%	4.37%
8	16.3	22.0	193	0.18%	0.17%	0.82%	0.75%	2.22%	1.96%	6.04%	5.62%
9	22.0	29.0	169	0.09%	0.07%	0.37%	0.29%	1.97%	1.69%	4.37%	3.77%
10	29.1	62.9	182	0.27%	0.25%	0.34%	0.27%	1.55%	1.33%	2.78%	2.34%

From 07.31.87 through 05.19.22. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

The gauge is widely viewed with a contrarian eye, so the tally of Bulls in the latest AAII Sentiment Survey coming in at 26.0% and the number of Bears residing at 50.4% is a major positive. The minus 24.4% Bull-Bear spread is in the very favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

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 more than a few of our stocks that had news out worthy of mention last week.

Cisco Systems (CSCO – $42.94) earned $0.87 per share in fiscal Q3 2022 (vs. $0.865 est.). The communications equipment firm had total revenue of $12.84 billion, versus the $12.28 billion estimate. Shares plunged 13% last week after the company indicated component shortages resulted in a significant increase to backlog. In addition, the war in Ukraine and higher freight costs weighed on margins. CSCO says the headwinds are continuing to have an impact in the current quarter and did not offer a time frame for relief beyond that there are internal efforts to mitigate the impacts.

CEO Chuck Robbins explained, "There were two unanticipated events since our last earnings call, which impacted our Q3 revenue performance. The first is the war in Ukraine. This resulted in us ceasing operations in Russia and Belarus and had a corresponding revenue impact. The second relates to COVID-related lockdowns in China, which began in late March. These lockdowns resulted in an even more severe shortage of certain critical components. This, in turn, prevented us from shipping products to customers at the levels we originally anticipated heading into Q3. Our Q4 guidance incorporates a wider-than-usual range, taking into account the revenue impact of the war in Ukraine and the continuing uncertainty related to the China COVID lockdowns. Given this uncertainty, we are being practical about the current environment and erring on the side of caution in terms of our outlook, taking it 1 quarter at a time. We believe that our revenue performance in the upcoming quarters is less dependent on demand and more dependent on the supply availability in this increasingly complex environment."

Mr. Robbins continued, "We continue to see strong demand in several areas of our business. Our web scale business remains strong as we continue to help these customers build their capabilities to connect and serve their customers and end users at scale from the data center to the edge. This is leading to continued strength in orders, which grew over 50%. And on a trailing 4-quarter basis, we had over 100% growth. This marks our ninth consecutive quarter of solid demand as we are winning new franchises, expanding our design wins and taking share in web scale. I remain incredibly proud of the progress we've made and the momentum we have in this space."

Mr. Robbins concluded, "While the quarter clearly did not play out as expected, demand remains solid and the fundamentals of our business are strong. We remain focused on executing against the strategy we laid out at our Investor Day. We will also continue to be resolute in our focus to transform our business for more predictability and agility while bringing to market a robust pipeline of innovation. We remain confident in our long-term growth and the opportunities that we have in front of us."

Cisco lowered its revenue growth target to a range of 2% and 3% for fiscal 2022 (vs. 6.1% est.), which should result in adjusted EPS between $3.29 and $3.37 (vs. $3.44 est.). For fiscal Q4, CSCO expects revenue to grow between 3% and 5% with adjusted EPS of $0.80 +/- $0.04 and a gross margin between 64% and 65%. The company has $17 billion remaining on its share repurchase authorization.

The whack was painful and dragged down peers like **Juniper Networks** (JNPR – $28.87), **Broadcom** (AVGO – $543.19) and **Hewlett Packard Enterprise** (HPE – $14.16). We wrote in our latest *Special Report* last week that the Q1 earnings season hasn't been terrible, with the notable caveat that analysts can edit their target prices and estimates right up to the time that companies report. CSCO was no different, with the fiscal Q3 a decent print, while soft guidance did the damage. Cisco relies on specialty parts and Beijing's zero-COVID policy is wreaking havoc across a wide range of industries, while little can be done to get China's government to alter course. Therefore, CSCO is at the mercy of suppliers, providing critical hardware to run its software. Until those dynamics change, we suspect CSCO will be limited in the product demand it can accommodate. We haven't heard much since February about the company's rumored acquisition of Splunk (a company firmly planted in the Growth end of stock valuations), though we wouldn't be surprised if CSCO got cold feet given increasing debt financing costs and a general pullback for Tech companies. Cisco sports a forward P/E ratio near 12 and a just-hiked 3.5% yield. We continue to find CSCO to be a value-priced stock with decent long-term growth potential. Our Target Price has been trimmed to $70.

Target's (TGT – $155.36) first quarterly miss since 2018 was a doozy, thanks to rising costs resulting in a major profit shortfall. For fiscal Q1 2023, TGT reported revenue around $24.8 billion (vs. $24.4 billion est.), while the earnings per share figure was $2.19 (vs. $3.08 est.). Management explained that despite strong sales and consumer trends, TGT was negatively impacted by capacity constraints in the freight markets, higher transportation costs and other bottlenecks getting inventory to the right places. The net result was inconsistent inventory in stores, especially in product categories that require high-volume storage (e.g. furniture and appliances).

CEO Brian Cornell explained, "First quarter comparable sales grew by 3.3%, on top of 23% growth a year ago. This marked our 20th consecutive quarter of comparable sales increases. 11 of those quarters were before the pandemic, followed by the rapid acceleration we saw in 2020. We're also encouraged that traffic continues to fuel our growth, increasing nearly 4% in the quarter, on top of 17% growth a year ago…Our first quarter gross margin rate was well below our expectations, reflecting a combination of factors that prove to be very different than expected, driven by a rapidly shifting macro backdrop and changing consumer behavior."

COO John Mulligan noted, "Capacity in our supply chain will continue to build throughout the year as the new buildings we opened last fall continue to ramp up their productivity while we work to open additional buildings in the years ahead."

CFO Michael Fiddelke added, "We expect the challenges we faced in the first quarter will continue to impact our near-term profit performance. And our team is focused on doing everything necessary to ensure we enter the fall season with an appropriate level of inventory by category. As such, we expect a Q2 operating margin rate in a wide range, centered around our first quarter rate to 5.3%, well below where we'd expect to operate under normal conditions. As we move into the back half of the year, we continue to expect our profit performance will begin to improve. In particular, as John mentioned, we expect to have worked through the excess inventory positions that hampered our Q1 performance and which we expect to impact our gross margin in Q2. We don't expect the external environment will be anything close to normal in the back half of the year. In particular, we don't expect to see any meaningful reduction in global supply chain pressures until 2023 at the earliest. So the elevated costs we've been facing will continue to affect our profitability for the remainder of the year."

Target warned in March's call that "quarterly profit performance will be choppy during the year and generally improve as the year progresses," which might feel like a bit of an understatement after seeing Q1 results. Of course, TGT is hardly the only retailer to experience cost pressure and the company must make careful guesstimates to figure out how much of those increases can be passed to consumers without torpedoing demand. We think that balancing act, plus uncertainty regarding inventory timing, will make the next year (or so) challenging, but while we sometimes need to have strong stomachs to endure frenetic near-term trading, our long-term thesis for Target remains very much intact. We think the retailer is among the best in our investment universe, while its finally getting credit for being a stable business vis-à-vis its change from the Consumer Discretionary to the Consumer Staples sector later this year. We think the reclassification will be a positive change because the new peer group by which we calculate our proprietary fundamental score will be more reflective of TGT's competition.

TGT continues to remodel stores and enhance store capabilities to support same-day fulfillment services. Management remains committed to returning cash to shareholders via share repurchases, which Mr. Fiddelke explained, "We entered into an accelerated repurchase plan in the first quarter, which will result in the retirement of up to $2.75 billion of our stock by the time the plan settles in June." And on the dividend front, management plans "to recommend that our Board approve a healthy increase in the quarterly dividend, in the mid-teens to low 20% range later this year, keeping 2022 on track to be our 51st consecutive year of annual dividend increases." Our trims of TGT in July 2021 around $253 and in January 2021 around $197 now look well-timed and have resulted in lower-than-target weighting in our broadly diversified portfolios, so we would consider bringing positions back up to normal weight given the massive 29% plummet in the stock price last week. Our Target Price for TGT has been pared to $265.

Shares of **Walmart** (WMT – $119.20) plunged nearly 20% last week after the retail behemoth released fiscal Q1 2023 financial results. The consumer bellwether earned $1.30 per share in the quarter ended April 30, a figure that was 12% below the Street target and 23% lower than that earned in the same quarter a year ago, even as revenue growth (2% year-over-year) persists beyond the stimulus-induced bump. Cost pressures from a higher mix of food and fuel relative to general merchandise and a preference for private label food items (particularly categories like deli, lunch meat, bacon and dairy) weighed on gross margins. We suspect some of this was due to seasonal factors as cooler weather persisted longer than usual. These pressures, and a few weeks of overstaffing that boosted wages, led to a 1.25% drop in operating margin year-over-year. Also front and center is a 32% bump to inventory on hand at the end of the quarter, some of which was attributed to inflation adjustments but also a matter of timing from supply chain elongation. Sam's Club and International comparable sales grew 10.2% and 13.0%, respectively.

CEO Dough McMillion weighed in on the inventory bulge, "We like the fact that our inventory is up because so much of it is needed to be in stock on our side counters, but a 32% increase is higher than we want. We'll work through most or all of the excess inventory over the next couple of quarters. We started being aggressive with rollbacks in apparel, for example, during Q1. Even with reduced prices, the apparel margin can still be helpful to our overall mix. As we managed the quarter, we generally passed on cost increases from suppliers at the category cost of goods level, but fuel costs accelerated during the quarter faster than we were able to pass them through creating a timing issue. Fuel ran over $160 million higher for the quarter in the U.S. than we forecasted. We made progress matching pricing to the increased costs as the quarter progressed. And while we expect some gross margin pressure in Q2, we expect an improvement over Q1. We're not happy with the profit performance for the quarter, and we've taken action, especially in the latter part of the quarter on cost negotiations, staffing levels and pricing while also managing our price gaps. While we've experienced high levels of inflation in our international markets over the years, U.S. inflation being this high and moving so quickly, both in food and general merchandise is unusual. We'll control what we can control, reduce our inventory level and keep prices as low as we can, especially on opening price point food items while improving our profit performance. Inflation is playing a role in the top and bottom line and the pace of change created a timing issue for us in Q1. We're adjusting to the mix change and operational costs."

Management uncharacteristically adjusted guidance after Q1 for the remainder of the year. CFO Brett Biggs added, "The team's focus is still on the original profit guidance. Based on our continuing strong top line, we feel good about our ability to deliver full year sales growth in excess of our original guidance. We now expect consolidated net sales growth, excluding divestitures, to be 4.5% to 5%. We expect Walmart U.S. comp sales growth of about 3.5% for the year versus the original guidance of slightly above 3%. However, as a result of the higher-than-anticipated costs we saw in Q1 and the expectation of some of that to continue, growing operating income on our original guidance and more than sales growth is challenging. We now expect operating income and EPS to be relatively flat year-on-year. As is our usual practice, we'll update you on our progress as we finish Q2. For Q2, we expect net sales growth of over 5%, including comp sales growth of 4% to 5% for Walmart U.S. As our confidence builds in our ability to manage cost increases more efficiently, operating income and EPS are expected to be flat to slightly up."

A massive drop for one of our stocks is never easy to experience, and WMT is now well into negative territory on the year. We expect the laundry list of economic obstacles to weigh on profit margins for several quarters, but an inflationary environment that seems likely to drag on ought to exaggerate consumer's thirst for a bargain. Walmart's expanding omnichannel presence, value proposition and defensive characteristics continue to win it a place in our portfolio. High-quality WMT shares trade at 18 times revised NTM EPS estimates and offer a 1.9% dividend yield. Our Target Price has been cut to $168, but we think this a terrific time for those without a position to consider picking up WMT from the discount bin.

Caught in the retail-stock carnage, shares of **Lowe's Cos** (LOW – $184.69) slid nearly 5% last week, even as the home improvement merchant posted 9% growth ($3.51 vs. $3.23 est.) in fiscal Q1 2023 EPS, versus the year-ago period. A gross margin expansion of 74 basis points and modest expense reduction were drivers of the bottom-line strength, despite a 3% contraction of revenue. Lowe's continues to find efficiencies to cut costs through inventory and payroll management, which offset higher logistical costs. Like its peer Home Depot, the company also dealt with a delayed spring season, which affected sales of items like outdoor power equipment, grills and patio furniture.

CEO Marvin Ellison commented, "Despite some increased uncertainty in the macro environment, our long-term outlook for the home improvement industry remains positive. Homeowner balance sheets are very strong, and their confidence to purchase big-ticket items is supported by continuing home price appreciation. Other factors like the extension of remote work, the age of the housing stock, millennial household formation and baby boomers preference to age in place, all are long-term tailwinds for home improvement. And over the past few years, we have greatly improved our operating capabilities so that we now have the agility needed to respond in this dynamic macro environment. These enhanced capabilities will allow us to continue to take market share while expanding our operating margin."

Rapid housing price gains continue to fuel business with Pro customers, which outpaced DIY and grew 20% year-over-year, and 63% on a 2-year basis. EVP of Stores Joe McFarland elaborated on the new rewards program for the segment, "We are really pleased to see the better-than-expected adoption rates for the new program and we expect to build on this momentum with the Pros as we launch enhanced features to the loyalty program in the coming months. Through this program, we are also gaining valuable insight about our Pro customers that will enable us to better anticipate and meet their project needs through our Pro CRM platform and allow us to continue to expand our share of wallet with these valuable customers. And we're expanding our Pro fulfillment capabilities with our new Pro fulfillment center in Charlotte, where we are stocking the top SKUs that Pros consistently need in job lot quantities. As we pilot this new approach to Pro fulfillment, we are building on our existing job site delivery capabilities handled through our stores and Lowe's Pro supply branches today. Although we are pleased with our 600 basis points of growth in Pro penetration over the past 3 years, improving our fulfillment capabilities will allow us to accelerate this growth and continue to gain market share."

Management expects to generate about $98 billion of sales at the midpoint of their range and between $13.10 and $13.60 of earnings per share for the full year. Even as inflation impacts the health of the nation's consumers unequally, we think residential market trends over the past couple of years ought to support demand for home improvement for the foreseeable future. As Home Depot management said last week:

Over our history, we've seen that home price appreciation is the primary driver of home improvement demand. When your home appreciates in value, you view it as a smart investment and you spend more on it. So let's look at what's happened at home prices. We've seen appreciation of over 30% over the last two years. In fact, home equity values over the last two years have increased by 40% or over $7 billion just in the last two years.

So the homeowner has never had a balance sheet that looks like this. They've seen the price appreciation, and they have the means to spend. And in surveys, our customers tell us that their homes have never been more important, and their intent to do projects of all sizes has never been higher. And our Pros say the same thing about their backlogs. So let's talk about interest rates.

I think it's important to remember that our addressable market is the 130 million housing units occupied in the US, plus probably, call it, 40 million to 50 million more in Canada and Mexico. Of those 130 million housing units, on any given year, only about 4% or 5% are sold. That means, that over 95% of our customers are staying in place. They're not shopping for a mortgage. Nearly 40% of those homes are owned outright. Of those who have mortgages, about 93% of those mortgages are fixed rate.

So when you think about our addressable market, the vast majority aren't really paying attention to mortgage rates. And what we've — what's interesting about that is, what we've heard, when they do look at moving, they're actually more and more tempted to stay in their low fixed rate mortgage and remodeled their home instead. So these low locked-in mortgages are probably a benefit to home improvement.

We continue to appreciate the ability of Lowe's management to drive efficiencies to expand returns on invested capital (reaching a record 34.8%) in the prior year. The 28% slide for the stock this year places the forward P/E multiple at 13.3, while the dividend yield stands at 1.7%. Our Target Price for LOW is now $270.

Shares of omni-channel specialty retailer **Kohl's** (KSS – $39.20) ended the week down 19%, following the latest quarterly earnings report. While fiscal Q1 revenue of $3.72 billion came in ahead of forecasts, adjusted EPS of $0.11 was far worse than the analyst consensus of $0.57. For 2023, KSS expects revenue to decline in the 0% to 1% range, with EPS between $6.45 and $6.85 (vs. March's range between $7.00 and $7.50).

"Over the past 3 months, Kohl's has been at the center of an unusual amount of attention and speculation. At our annual meeting last week, we were very pleased that our shareholders voted to retain all 13 of our directors. This Board is committed to overseeing the successful transformation of the company and fulfilling its fiduciary responsibility to maximize shareholder value… At this point, we have formally communicated to the multiple parties in our process the specific procedures for the submission of actionable bids due in the coming weeks. We continue with our detailed diligence phase and are pleased with the number of parties who recognize the value of our business and plan. We'll update the market when it's appropriate to do so," said CEO Michelle Gass.

Ms. Gass added, "Our first quarter results were below our expectations. While the quarter started off strong with positive low single-digit comp growth through late March, in April, demand considerably weakened as we lapped last year's stimulus and as consumers started to experience inflationary pressures. Importantly, we have seen trends notably improve in May as we moved past key stimulus weeks from last year and as the weather turned favorable, which has accelerated demand for our spring seasonal classifications… In summary, while the year has started out below our expectations, trends are improving, we are making changes, and the benefits of our key strategic initiatives are still in front of us. I want to thank our talented and committed associates across the country once again for their ongoing dedication to Kohl's and our customers through what has been a challenging few months."

CFO Jill Timm said, "We are updating our annual guidance to reflect our first quarter results and incorporate continued uncertainty in the macroeconomic environment, recognizing many headwinds, including inflation, are not likely to abate in the near future. We now expect net sales to be in the range of flat to an increase of 1% versus 2021, operating margins to be in the range of 7% to 7.2% and EPS to be in the range of $6.45 to $6.85. As we look to the balance of the year, we expect our sales trends to strengthen as we benefit from more Sephora store openings, Active expansion and the rollout of our enhanced Kohl's Rewards program. We continue to see our Sephora stores performance accelerate, and the 48 stores that opened at the end of April are off to a great start, exceeding plan. As it relates to gross margin, we currently expect it to be down 100 to 125 basis points for the year driven by elevated freight expense and product cost inflation."

Given the violent share price movements and surplus of KSS publicity lately, it might be surprising to read that KSS has actually outperformed its S&P 400 Consumer Discretionary index this year. Kohl's is down nearly 20% and the index is down 26%, which is nothing to celebrate since investors still have lost money, however KSS's recent performance is not unique. The company has many battles to work through – activist investor pressure, management changes, inflation and deteriorating consumer dynamics, but we think investors with a longer-term view might find that Kohl's has many opportunities to be successful, whether it is as a stand-alone company or through a corporate action. It's difficult to handicap which buyout stories are credible and which are not, so we are generally excluding them from our long-term expectations, though that may change at any time as new information becomes available. We consider Kohl's to be substantially discounted from its intrinsic value, as is evident by our $72 Target Price. KSS shares yield 5.1%.

Despite the extreme pressure on many retail stocks of late, shares of **Foot Locker** (FL – $31.54) ended a tumultuous week up almost 6% on the back of a solid fiscal Q1 2023 financial release. While last week saw a number of consumer companies miss expectations or provide cloudy or gloomy outlooks, FL bucked the trend, though we recognize that the share price still has been almost cut in half over the last year. FL posted adjusted EPS of $1.60, versus the consensus estimate of $1.53, on revenue of $2.18 billion (versus the average forecast of $2.19 billion).

While the bottom line number was surprisingly good, the print didn't come without some stiffening headwinds. Q1 comparable-store sales decreased by 1.9% year-over-year, with apparel sales significantly outpacing footwear. Gross margins in the quarter declined by 80 bps YoY to 44.0% while the company spent more on technology and wages. The company also closed 67 stores, opened 24 stores and remodeled 23 for another quarter of net decline in store base.

"We are off to a strong start in 2022, reporting a solid quarter against the tough comparisons of fiscal stimulus and historically-low promotions from last year," said CEO Richard Johnson. "Our progress in broadening and enriching our assortment continues, as we continue to meet our customers' demand for choice. These efforts helped drive our strong results in the first quarter, and we believe will allow us to more fully participate in the robust growth of our category going forward."

Mr. Johnson continued, "As we elevate brands across our portfolio, continue to use our real estate flexibility to optimize our footprint, and evolve our omni-channel capabilities, we are excited about our improving ability to expand our customer base and fuel our consumer's desire for self-expression."

CFO Andrew Page stated, "Following our solid results from the first quarter, our strong inventory position going into the remainder of the year, and our strengthening vendor relationships, based on our current visibility, we now expect to achieve the upper end of our revenue and earnings guidance for the full year. Our balance sheet and real estate flexibility remain strategic assets for us as we continue to navigate this dynamic industry and serve the sport and sneaker community."

After boosting the dividend earlier in the year and given the pressure on the shares, the current yield sits above 5%. While the balance sheet is still solid, it currently doesn't sport the mounds of net cash per share that it normally does as the company bought back 2.7 million common shares during Q1 (with an average price below $33). We continue to acknowledge that a reduced emphasis on Nike will cause some hiccups, but momentum has been building across shoe labels like Adidas, Puma and New Balance, including an enhanced partnership deal with Adidas that has both firms believing sales of the brand will triple by 2025. Further, apparel sales have been strong of late and new revenue streams from recent acquisitions and investments should be a positive, while more private label offerings should support future margins. Our Target Price for FL has been adjusted to $64.

Not surprising to us, investors once again took their eyes off the long-term ball, slamming shares of **Deere & Co.** (DE – $313.31) on Friday, following the farm equipment maker's fiscal Q2 2022 earnings release. Shares skidded more than 14% as Deere's revenue of $12.03 billion came in more than 9% short of expectations, yet adjusted EPS of $6.81 was better than the $6.70 consensus forecast.

Near-term margin pressures, driven by higher raw material and freight costs, as well as supply chain limitations caused investor angst. Large and small Ag segment sales were up 13% and 5% YoY, respectively. We were encouraged that management kept full-year sales growth in place, which means they expect a big second half. Couple that with our optimism for 2023, and the weakness generated Friday creates attractive opportunity in our eyes. Additionally, management raised full-year adjusted EPS guidance on a lower-than-expected blended tax rate and continued pricing power. The new projected earnings range is $7.0 billion to $7.4 billion, up from $6.7 billion to $7.1 billion.

"Deere's second-quarter performance reflected a continuation of strong demand even as we face supply-chain pressures affecting production levels and delivery schedules," said CEO John C. May. "Deere employees, suppliers, and dealers are working hard to address these challenges. We are proud of their extraordinary efforts to get products to our customers as soon as possible under the challenging circumstances."

Mr. May added, "Looking ahead, we believe demand for farm equipment will continue benefiting from positive fundamentals in spite of availability concerns and inflationary pressures affecting our customers' input costs. The company's smart industrial strategy and recently announced Leap Ambitions are focused on helping customers manage higher costs and increasingly scarce inputs, while improving their yields, through the use of our integrated technologies."

With possibly the strongest brand in agriculture, we think Deere will continue to benefit from a sustainable equipment replacement cycle and precision ag as technology advancements support and drive pricing. Additionally, the company should see gains in the aftermarket as retrofitting expands. We continue to appreciate the diversification of its construction products, while a strong appetite for U.S. infrastructure spending should provide a boost in the coming years. After the bump up in earnings expectations and the extreme move down in share price on Friday, the NTM adjusted P/E has fallen below 12.5. Our Target Price on DE now resides at $500.

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