Market Commentary Monday, September 5, 2022

September 5, 2022

EXECUTIVE SUMMARY

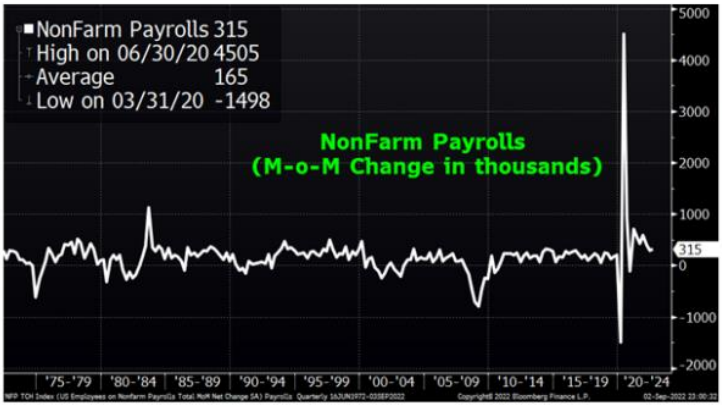
Goldilocks – Not-too-Hot, Not-Too-Cold Jobs Report
Market Week – More Red Ink
Fed – Little Change in Rate Expectations
Econ Data – Economy Still Relatively Healthy
History Lessons – Recessions and "Volcker Shock" No Reason to Sell Stocks
Volatility – Ups and Downs, But Stocks Have Persevered in the Fullness of Time no Matter the Headwind
Valuations – Liking the Metrics for our Portfolios
Dividends – Two Dozen Undervalued Higher Yielders
Stock News – Updates on STX, AVGO, Semis, BMY, HPE & BIG

Market Review

Not even a Goldilocks (not-too-hot, not-too-cold) monthly jobs report,…

THE PRUDENT SPECULATOR

STILL HEALTHY JOBS PICTURE



Economists were looking for a gain of 318,000 payrolls, so the increase of 315,000 in August was in line with expectations, but the June and July tallies were revised down by a combined 107,000 jobs. Notable job gains were in professional and business services, health care and retail trade. With strong demand for labor, wage gains held steady on a year-over-year basis, rising 5.2% in July and August as employers struggled to fill positions with qualified applicants.

…could save stocks from a second straight week of red ink,…

THE PRUDENT SPECULATOR

MARKET OF STOCKS – INDEXES CAN HAVE WIDE DISPERSION IN RETURNS

With Jerome H. Powell's "painful" words at Jackson Hole still the main catalyst, stocks and bonds sank again last week, pushing the Nasdaq Composite index down 25% and the U.S. Aggregate Bond index down 11% on the year. There are no awards for the losses on Value in 2022, but inexpensive stocks have held up better, which is in keeping with the historical evidence when inflation is high, when the Fed is tightening and when interest rates are moving up.

Total Returns Matrix

2000	2001		Last Week	YTD	Last 12 Months	Since 10.31.20	Last 2 Years	Since 3.23.20	Last 3 Years	Last 5 Years	Name	Symbol
-4.85	-5.44	M	-2.85	-12.54	-9.85	22.67	11.91	77.09	26.36	58.90	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-3.13	-12.88	-11.00	23.49	16.03	77.65	24.23	40.03	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-4.18	-25.24	-23.55	8.13	-2.05	72.82	49.89	89.58	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-4.82	-23.95	-28.15	0.60	-2.75	62.79	16.33	34.56	Russell 2000 Growth	RU20GRTR Index
22.83	14.02	E	-4.58	-13.54	-12.33	42.80	38.39	108.42	32.36	34.37	Russell 2000 Value	RU20VATR Index
-3.02	2.49	T	-4.70	-18.70	-20.47	20.12	16.27	85.81	25.68	36.52	Russell 2000	RU20INTR Index
-11.75	-20.15		-3.95	-26.21	-28.50	-1.12	-5.04	63.99	20.61	59.32	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		-3.24	-12.54	-9.33	33.93	29.21	104.72	30.39	41.59	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62	O	-3.49	-17.42	-16.48	20.61	16.18	91.15	29.41	52.75	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-3.94	-24.05	-20.68	10.95	0.05	78.02	46.18	91.91	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		-2.89	-10.57	-7.67	32.80	25.65	85.62	28.52	43.90	Russell 3000 Value	RU30VATR Index
-7.46	-11.46	S	-3.42	-17.68	-14.49	21.25	11.85	82.92	38.83	68.69	Russell 3000	RU30INTR Index
9.64	-0.39	T	-2.95	-13.17	-9.58	34.14	27.07	102.84	40.91	65.09	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-3.23	-16.78	-12.19	23.41	12.95	82.29	40.91	73.19	S&P 500	SPXT Index
-22.08	-12.73	C	-3.85	-23.50	-18.48	15.31	3.73	80.46	46.42	90.74	S&P 500 Growth	SPTRSGX Index
6.08	-11.71	K	-2.63	-9.27	-5.41	32.38	24.51	80.02	30.98	50.91	S&P 500 Value	SPTRSVX Index
3.18	1.57		-1.27	-15.88	-18.15	-17.29	-17.55	-9.86	-12.79	-7.38	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.02	-10.94	-11.80	-11.33	-12.12	-6.70	-6.07	2.59	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 09.02.22. Source Kovitz using data from Bloomberg

…as traders continue to digest tough talk on inflation from members of the Federal Reserve. This includes Jerome H. Powell's "painful" Jackson Hole, Wyoming, speech,…

THE PRUDENT SPECULATOR

MONETARY POLICY AND PRICE STABILITY: CHAIR POWELL 08.26.22

The Federal Open Market Committee's (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal. Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy. Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of strong labor market conditions that benefit all. The burdens of high inflation fall heaviest on those who are least able to bear them.

Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.

The U.S. economy is clearly slowing from the historically high growth rates of 2021, which reflected the reopening of the economy following the pandemic recession. While the latest economic data have been mixed, in my view our economy continues to show strong underlying momentum. The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers. Inflation is running well above 2 percent, and high inflation has continued to spread through the economy. While the lower inflation readings for July are welcome, a single month's improvement falls far short of what the Committee will need to see before we are confident that inflation is moving down.

We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2 percent. At our most recent meeting in July, the FOMC raised the target range for the federal funds rate to 2.25 to 2.5 percent, which is in the Summary of Economic Projection's (SEP) range of estimates of where the federal funds rate is projected to settle in the longer run. In current circumstances, with inflation running far above 2 percent and the labor market extremely tight, estimates of longer-run neutral are not a place to stop or pause.

…as well as comments this past Tuesday from New York Fed President John Williams: “We’re going to need to have restrictive policy for some time; this is not something that we’re going to do for a very short period of time and then change course…It’s going to take some time before I would expect to see adjustments of rates downward.”

Of course, even though interest rates again moved higher last week,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD RISES AGAIN ON HAWKISH FED

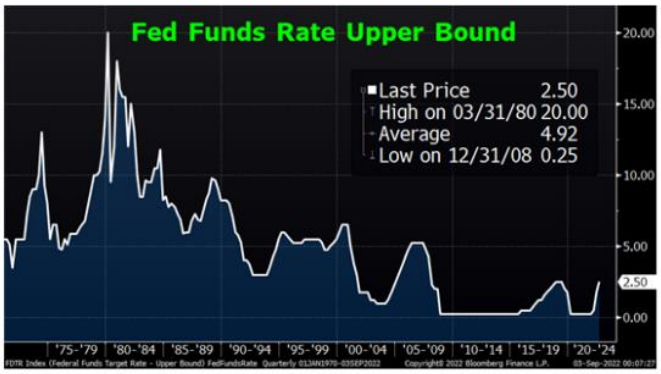
Given the tough talk on inflation from Jerome H. Powell & Co. as well as the continuation of solid economic stats, government bond market players continued to dump U.S. Treasuries last week, sending the yield on the benchmark 10-year bond up 15 basis points.

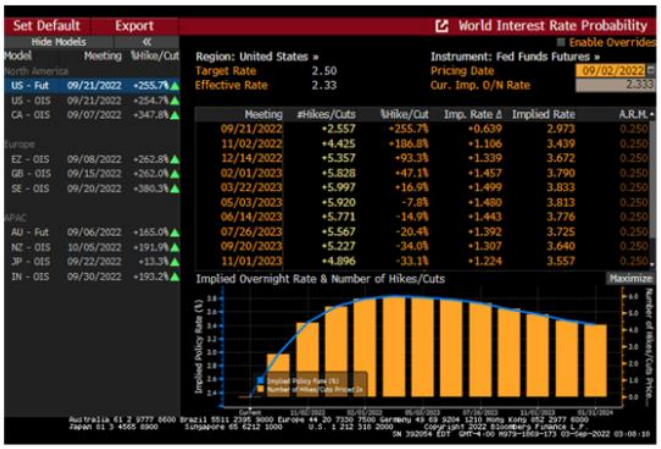
…the outlook for additional Fed rate hikes has not changed much over the last couple of weeks, with the Fed Funds futures arguing against Mr. Williams' view that the Fed will not reverse course next year.

THE PRUDENT SPECULATOR

FED FIGHTING INFLATION – INTEREST RATES STILL HISTORICALLY VERY LOW

Although the estimate for GDP growth this year was pared to 1.7% in June, down from 2.8% in March, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at both the June and July FOMC meetings. Jerome H. Powell & Co. project that the Fed Funds rate will likely end the year at 3.5%, though this still would be below the historical average. The Fed Funds futures are currently a bit more hawkish in terms of the number of hikes expected over the balance of the year, even as they expect that rates will be cut starting in May 2023.





To be sure, Chair Powell & Co. will remain data dependent, so nobody knows yet the direction of interest rates, but the economic statistics out last week were relatively healthy, showing a resilient consumer, no doubt uplifted by a 24% drop in gasoline prices since June,…

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MIXED READINGS ON THE HEALTH OF THE CONSUMER

Consumer confidence, per data from the Conference Board, came in well above expectations in August, climbing to 103.2, up from 95.7 in July, with falling gas prices helping the outlook. Meanwhile, supply chain issues and a weaker economy continue to impact sales of cars and trucks, though the tally for August of a seasonally adjusted annualized rate of 13.2 million units, according to Wards Automotive Group, was only modestly below the month prior.

…and plenty of job openings,…

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HIGH JOB OPENINGS AND LOW UNEMPLOYMENT FILINGS

With the "Great Resignation" continuing as 4.2 million people quit their jobs in July, the labor market remains healthy, and the number of job openings rose to 11.2 million, even as the number of positions being filled fell for the fourth straight month. Looking at more current data, first-time filings for jobless benefits dipped by 5,000 to 232,000 in the week ending August 20, a figure that suggests a slowing U.S. economy is not yet triggering wide layoffs.

…even as the latest unemployment rate ticked up a couple of tenths.

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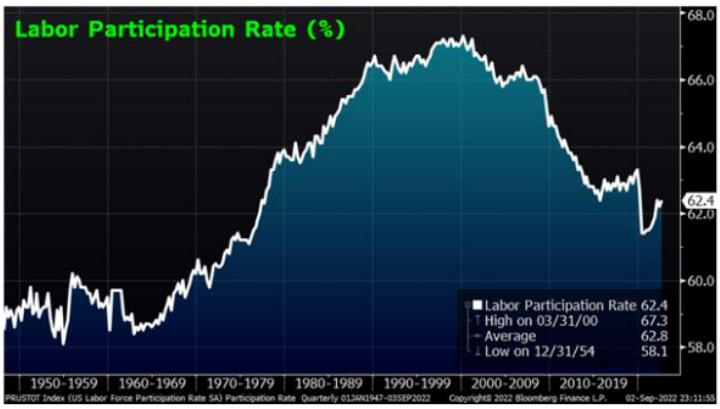
VERY LOW JOBLESS RATE & PANDEMIC HIGH PARTICIPATION RATE



Though plenty of new jobs were created, the unemployment rate for August rose to 3.7%, up from 3.5% in July, as the number of unemployed folks increased by 344,000 to 6.0 million. The jobless percentage was the greatest in six months. The so-called participation rate inched up 0.3 points in August to 62.4%, near the highest level since the beginning of the pandemic, but 1.0 points below the February 2020 figure.

Interestingly, though the odds of recession remain 50%,…

THE PRUDENT SPECULATOR

PLENTY OF DOOM & GLOOM TALK, ODDS OF RECESSION REMAIN 50%

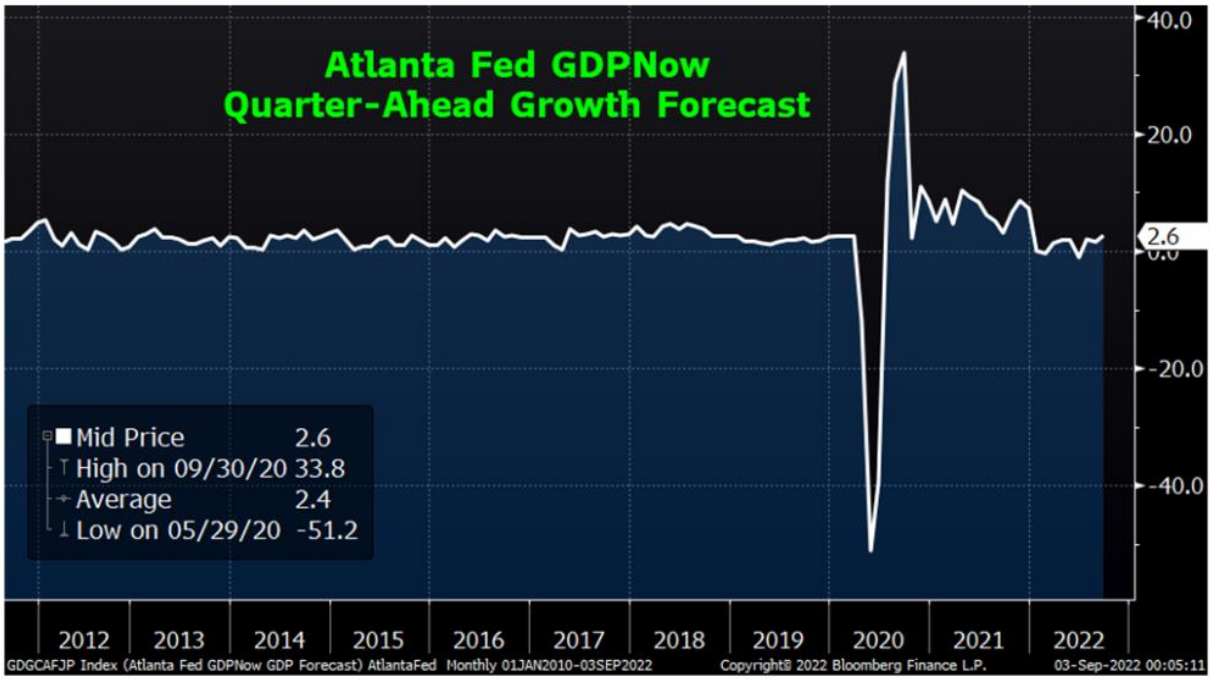
The respective 1.6% and 0.6% contractions in Q1 and Q2 2022 real (inflation-adjusted) GDP means economists could say that the U.S. economy is in recession, but the odds of an official declaration stand today at 50%, meaning the consensus forecast is split down the middle.

…the outlook for Q3 GDP growth jumped last week,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION JUMPS TO 2.6%

Q1 and Q2 2022 saw respective 1.6% and 0.6% contractions in real (inflation-adjusted) GDP growth, as the Omicron variant, supply-chain difficulties, the war in Ukraine and inflation impacted the economy, but the Atlanta Fed's projection for Q3 2022 real GDP growth on an annualized basis as of September 1 stood at 2.6%.



…and the prognosis for the health of corporate profits remains pretty good.

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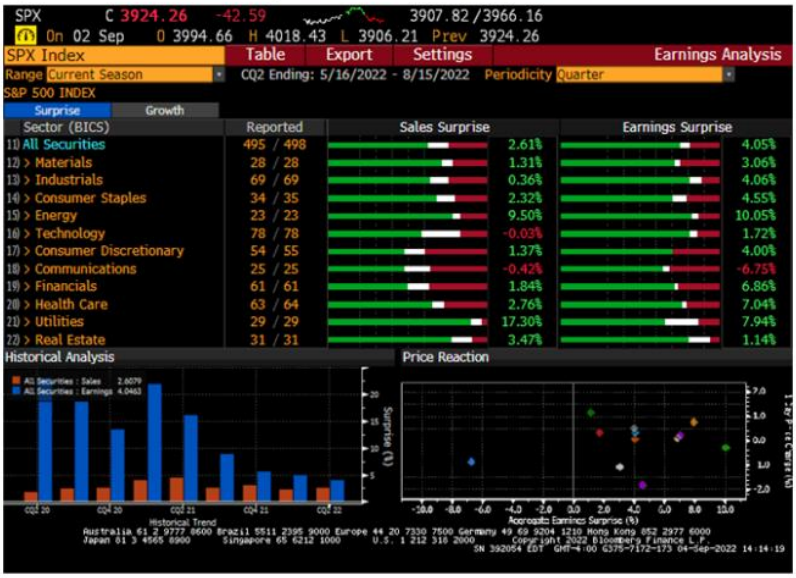
DECENT EPS IN Q2 '22 AND '22/'23 ESTIMATES REMAIN SOLID

Q2 earnings reporting season was pretty good (Berkshire Hathaway's massive $66.9 billion unrealized investment loss skewed the overall S&P EPS number sharply lower and is likely to skew it higher in Q3), even as outlooks generally were subdued, and stock prices sometimes reacted negatively. 75.1% of the 495 S&P 500 companies beat EPS expectations and 62.7% exceeded revenue forecasts.



Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.91	$240.66
9/30/2023	$61.01	$235.59
6/30/2023	$59.57	$230.40
3/31/2023	$57.17	$217.80
12/31/2022	$57.84	$209.99
9/30/2022	$55.82	$208.88
6/30/2022	$46.97	$205.08
ACTUAL		
3/31/2022	$49.36	$210.16
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 8.31.22

We realize that many pundits now view good economic numbers as bad news in that they fear the Fed will be forced to maintain tight monetary policy, but such a stance hasn't been a big problem, on average, in prior years for Value stocks or Dividend Payers,…

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%**

…with the supposedly difficult Volcker vanquishing of the Great Inflation of the 1960s-1970s resulting in sensational average annualized returns for both of those groups of equities.

THE PRUDENT SPECULATOR

EQUITIES CLEARLY DIDN'T MIND THE VOLCKER SHOCK

During the 1970s, as inflation climbed, the anticipation of high inflation became entrenched in the economic decisionmaking of households and businesses. The more inflation rose, the more people came to expect it to remain high, and they built that belief into wage and pricing decisions. As former Chairman Paul Volcker put it at the height of the Great Inflation in 1979, "Inflation feeds in part on itself, so part of the job of returning to a more stable and more productive economy must be to break the grip of inflationary expectations." – Jerome H. Powell

Volcker Vanquishes The Great Inflation Equity Returns

Year	FF Value	FF Growth	FF Div Payers	FF Non Div	Inflation	Fed Funds Rate
1979	30.5%	32.3%	22.5%	60.5%	13.3%	14.0%
1980	19.5%	44.2%	30.8%	63.3%	12.4%	18.0%
1981	16.0%	-9.0%	-1.1%	-16.1%	8.9%	12.0%
1982	34.1%	20.8%	21.7%	13.6%	3.9%	8.5%
1983	37.5%	17.5%	22.8%	20.7%	3.8%	9.5%
1984	11.9%	-7.3%	5.1%	-18.3%	4.0%	8.3%
1985	32.5%	31.2%	33.7%	24.0%	3.8%	7.8%
1986	18.1%	8.6%	18.2%	2.2%	1.1%	6.0%
Annualized	**24.7%**	**15.9%**	**18.7%**	**15.3%**	**6.3%**	

Total Return. Value Weighted Equity Portfolios. Year-End Federal Funds Rate. Source: Kovitz Investment Group using data from Bloomberg and Professors Eugene F. Fama & Kenneth R. French

The approach took two tries to get its intended effect. Volcker's tightening slowed economic activity enough that by January 1980, the U.S. was in recession. But Fed interest rates actually began falling sharply after April, which limited the effectiveness of the Fed's anti-inflation efforts. The Fed tightened again after that and sparked another recession in July 1981. This one was far worse than the first; while unemployment peaked at 7.8 percent during the 1980 recession, it would peak at 10.8 percent in December 1982 in the middle of the 16-month second Volcker recession. That's a higher level than at the peak of the Great Recession in 2009. Over the course of the 1980s, this policy regime would become known as the "Volcker shock."

– Vox.com

True, the past is no guarantee of the future, but history suggests that even if we knew for sure that a recession was imminent, we should still stay the course with our long-term investment plan.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND RECESSIONS (PRE AND POST) – FAMA FRENCH VALUE

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%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%	303020%	7691191%
18.2%	42.0%	May 1937	-39.3%	-55.8%	-33.2%	-55.0%	-32.5%	-44.7%	53.7%	140.3%	563117%	7280957%
26.3%	56.8%	February 1945	26.0%	42.0%	12.0%	28.6%	64.3%	75.6%	379.2%	469.5%	405852%	3545492%
4.0%	4.8%	November 1948	19.2%	12.2%	101.8%	109.3%	145.2%	130.8%	542.0%	586.7%	329652%	2567450%
3.1%	4.7%	July 1953	31.9%	25.4%	128.9%	118.2%	136.5%	138.6%	308.5%	385.1%	136206%	1075797%
-1.2%	-0.3%	August 1957	10.0%	16.6%	40.2%	55.8%	55.1%	79.0%	188.9%	421.8%	62545%	508225%
-2.4%	-6.3%	April 1960	24.2%	29.5%	41.7%	51.9%	92.4%	130.9%	107.7%	270.1%	47101%	343527%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	39.8%	-11.3%	-7.6%	77.0%	264.4%	20274%	86989%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.2%	23.7%	142.2%	182.3%	716.8%	17128%	76043%
20.6%	30.5%	January 1980	19.5%	12.5%	49.5%	81.1%	102.4%	183.6%	342.4%	480.0%	10738%	21990%
13.0%	23.2%	July 1981	-13.3%	-0.7%	34.0%	78.2%	127.9%	199.8%	343.5%	405.4%	8653%	17224%
6.5%	-7.2%	July 1990	12.7%	10.0%	38.2%	75.2%	83.2%	125.3%	407.4%	436.7%	2124%	3670%
-21.7%	22.3%	March 2001	0.2%	13.1%	1.9%	34.3%	21.4%	83.7%	38.3%	85.6%	436%	492%
5.6%	-8.0%	December 2007	-37.0%	-36.5%	-8.3%	-7.8%	8.6%	4.2%	125.8%	116.4%	277%	214%
8.2%	-9.6%	February 2020	31.3%	39.0%							45%	65%
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**44.4%**	**53.3%**	**84.3%**	**217.0%**	**337.9%**	**127144%**	**1547955%**

Through 4.29.22.TR = Total Return. FF Value = Value Weighted Book to Market Portfolios - Blend of Small Value and Big Value.Source: Kovitz Investment Group using data from Bloomberg, Professors Eugene F. Fama & Kenneth R. French and the National Bureau of Economic Research

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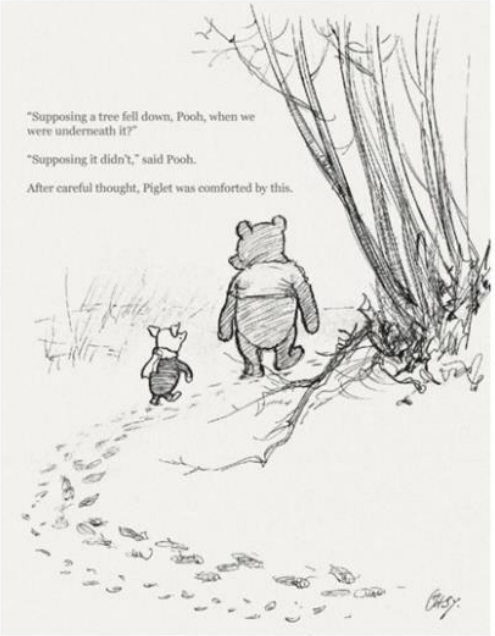
Anything can happen, and we realize that geopolitical events are always a wildcard, but the equity markets have persevered and advanced despite plenty of disconcerting developments over the decades,…

THE PRUDENT SPECULATOR

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

No doubt, there is plenty about which to worry today, including the war in Ukraine, supply-chain disruptions, inventory management woes, corporate-profit question marks, higher inflation readings and the increased risk of recession, not to mention comments and actions from the Federal Reserve, 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%	45110%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	26062%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	23413%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	9110%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8510%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9967%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	7236%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5537%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	4107%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	5102%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	4158%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5507%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3630%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3895%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	3185%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2324%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1503%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1645%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1141%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	942%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	853%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	785%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	759%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	677%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	347%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	309%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	219%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	192%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	306%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	328%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	260%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	228%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	480%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5389%**

As of 9.2.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

…posting handsome long-term returns, despite a lot of volatility 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%	65.7%	555	46	2.0	6/16/2022	8/16/2022
12.5%	44.7%	336	73	1.3	6/16/2022	8/16/2022
10.0%	35.0%	245	100	0.9	6/16/2022	8/16/2022
7.5%	23.7%	149	159	0.6	6/16/2022	8/16/2022
5.0%	14.7%	72	311	0.3	6/16/2022	8/16/2022

Declining Markets

Minimum Decline %	Average Loss	Average # Days	Count	Frequency (in Years)	Last Start	Last End
-20.0%	-35.0%	281	27	3.4	1/3/2022	6/16/2022
-17.5%	-30.2%	216	39	2.4	1/3/2022	6/16/2022
-15.0%	-28.3%	188	45	2.1	1/3/2022	6/16/2022
-12.5%	-22.8%	138	72	1.3	1/3/2022	6/16/2022
-10.0%	-19.6%	102	99	0.9	3/29/2022	6/16/2022
-7.5%	-15.4%	65	159	0.6	8/16/2022	9/2/2022
-5.0%	-10.9%	36	311	0.3	8/16/2022	9/2/2022

From 02.20.28 through 09.02.22. 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	13.2%	25.9%
Growth Stocks	9.6%	21.4%
Dividend Paying Stocks	10.7%	18.0%
Non-Dividend Paying Stocks	9.0%	29.3%
Long-Term Gov't Bonds	5.3%	8.6%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 04.30.22. 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

So, as we wrote in the September edition of *The Prudent Speculator's Editors Note*, "Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful."

THE PRUDENT SPECULATOR

WARREN BUFFETT ON "MR. MARKET"

Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, *you're* the patsy."

...[A]n investor will succeed by coupling good business judgment with an ability to insulate his thoughts and behavior from the super-contagious emotions that swirl about the marketplace. In my own efforts to stay insulated, I have found it highly useful to keep Ben's Mr. Market concept firmly in mind.

Letter to Shareholders, 1987 Berkshire Hathaway Annual Report

Indeed, as we think Mr. Market is now showing up in a particularly foolish mood, given that equities in general are priced attractively,…

THE PRUDENT SPECULATOR

INTEREST RATES STILL SUPPORTIVE OF STOCKS

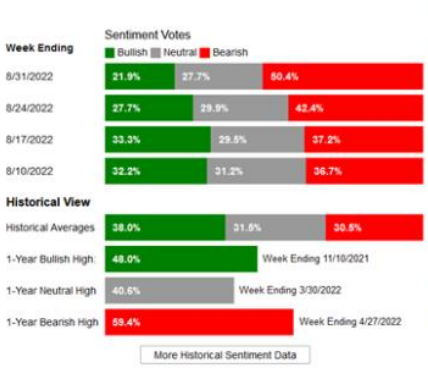
The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. 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 (5.21% vs. 3.19% 10-Year) and S&P 500 dividend yield of 1.67%.

…we are free to ignore him or to take advantage of him, especially as many of our fellow investors appear to be running for the exits.

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -28.5%

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



CURRENT AAII SENTIMENT BULL-BEAR SPREAD:

The Sentiment Survey is a contrarian indicator. Above-average market returns have often followed unusually low levels of optimism, while below-average market returns have often followed unusually high levels of optimism. Click here to learn more.

BULL-BEAR SPREAD TRENDS:

Previous Week	1 Month Ago	3 Months Ago	6 Months Ago
-16	-6	-39	-3
Neutral	Neutral	Greedy	Neutral

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 = 7.49											
BELOW	-54.0	7.5	915	0.24%	0.20%	1.17%	1.04%	3.37%	2.97%	6.65%	5.89%
ABOVE	7.5	62.9	914	0.17%	0.16%	0.55%	0.46%	2.00%	1.74%	4.68%	4.20%
Ten Groupings of 1829 Data Points											
1	-54.0	-16.1	183	0.46%	0.40%	2.06%	1.82%	4.82%	4.26%	9.17%	7.97%
2	-16.0	-8.2	184	0.33%	0.29%	1.02%	0.89%	3.39%	3.01%	6.36%	5.53%
3	-8.1	-2.0	186	0.28%	0.25%	1.32%	1.22%	3.54%	3.16%	7.70%	7.04%
4	-2.0	3.0	179	0.08%	0.05%	0.94%	0.85%	2.51%	2.14%	5.35%	4.80%
5	3.0	7.4	182	0.03%	0.01%	0.47%	0.37%	2.51%	2.24%	4.59%	4.05%
6	7.5	11.9	183	0.12%	0.10%	0.54%	0.42%	1.87%	1.63%	5.03%	4.59%
7	11.9	16.1	184	0.19%	0.17%	0.68%	0.58%	2.49%	2.24%	5.19%	4.66%
8	16.2	22.0	197	0.20%	0.19%	0.80%	0.73%	2.12%	1.86%	5.98%	5.57%
9	22.0	29.0	168	0.10%	0.08%	0.43%	0.35%	2.02%	1.73%	4.47%	3.87%
10	29.0	62.9	183	0.26%	0.24%	0.29%	0.22%	1.51%	1.29%	2.70%	2.26%

From 07.31.87 through 09.01.22. 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 21.9% and the number of Bears residing at 50.4% is a major positive. The minus 28.5% Bull-Bear spread is one of the lowest ever and is in the most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

That does not mean that downside volatility is easy to navigate, but we sleep well at night, given the inexpensive valuation metrics and generous dividend yields of our portfolios,…

CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	11.7	10.7	0.8	2.1	2.9
ValuePlus	12.2	11.0	1.1	2.2	2.4
Dividend Income	11.4	10.8	0.7	2.0	3.3
Focused Dividend Income	12.5	11.8	1.0	2.4	2.9
Focused ValuePlus	12.2	11.8	1.2	2.4	2.7
Small-Mid Dividend Value	9.9	9.3	0.5	1.5	3.2
Russell 3000	20.6	17.7	2.1	3.7	1.6
Russell 3000 Growth	29.5	24.1	3.2	9.5	1.0
Russell 3000 Value	15.7	13.9	1.6	2.2	2.3
Russell 1000	19.8	17.5	2.3	3.8	1.7
Russell 1000 Growth	27.8	24.0	3.5	9.8	1.0
Russell 1000 Value	15.2	13.7	1.6	2.3	2.3
S&P 500 Index	19.2	17.3	2.4	3.9	1.7
S&P 500 Growth Index	23.3	21.3	4.2	7.2	0.9
S&P 500 Value Index	16.4	14.7	1.7	2.8	2.4
S&P 500 Pure Value Index	10.2	9.3	0.6	1.4	2.7

As of 09.03.22. 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 always think it helpful in times of market turbulence to focus on the income that we receive, especially as we expect those payouts to move higher year after year.

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 several of our stocks that posted quarterly results last week or had news out worthy of mention.

It was a rough week for semiconductors, with news from **Seagate Technology** (STX – $65.47) dealing the first blow to the Philadelphia Stock Exchange Semiconductor (SOX) Index. Seagate revised its business outlook for fiscal Q1 2023 (ending September 30). The storage maker now expects revenue between $2.0 billion and $2.2 billion, which was lower than the previous window of $2.35 billion to $2.65 billion.

Via press release, CEO Dave Mosley said, "Since our earnings call in mid-July, weaker economic trends in certain Asian regions have amplified customer inventory corrections and supply chain disruptions. We have also seen more cautious buying behavior among global

Enterprise / OEM and certain U.S. cloud customers amid ongoing macro-economic uncertainties. These external factors are impacting near-term mass capacity demand while continuing to weigh on the consumer centric legacy markets. As we operate under these dynamic market conditions, we continue to take proactive steps to minimize the impacts to the business. We are further reducing our production output, lowering expenses, and moderating fiscal 2023 capital investments. The combination of lower revenue, increased under-utilization charges and less favorable product mix in the September quarter will result in a sequential decline in margins, with non-GAAP EPS now expected to be meaningfully below our prior guidance of at least $1.20."

That doesn't sound great, even as Mr. Mosley went on to say, "We continue to see solid demand for our 20+ terabyte product family and remain on-track for volume and revenue crossover with the 18-terabyte platform in the September quarter. The long-term demand drivers for mass capacity storage remain intact and Seagate's strong product roadmap and deep customer relationships make us well positioned to capture these significant future growth opportunities."

Though Seagate's downward revision was not the update we were hoping for, and it suggests that the mania we saw in the Tech sector might be normalizing, we think the long-term story for STX remains intact. Of course, we are buoyed by the 4.3% dividend yield and the very reasonable forward P/E ratio of 12, especially as those next-12-month profits are likely to represent an earnings trough as the consensus EPS estimate for fiscal '24 stands at $8.03. Our Target Price for STX is $114.

A second blow was struck when the U.S. government moved to restrict NVIDIA from selling some of its chips to China to prevent certain artificial intelligence (AI) chips from ending up in the hands of the Chinese military (and likely in weapons). NVIDIA said it would work with customers to substitute the restricted chips with those that are not subject to export rules. Shares of the graphics processor maker have fallen nearly 25% over the past six trading days, pushing our old friend a little closer to Value territory, though there is still much more to go on the downside before we would again consider a purchase. Revenue and earnings projections have also tumbled, so we think the punishment fits the crime. NVIDIA is approximately 7.5% of the SOX index, and the big whack did a number on that benchmark and dragged down shares of the chip companies that we own.

While we covered **Broadcom** (AVGO -$500.22) as a Portfolio Builder feature in *TPS 671*, we thought it was worth expanding a little bit on the company's terrific Q3-2022. The estimate-beating quarter was driven by cloud and service provider growth across a broad range of end markets. CEO Hock Tan said he expects Q4 to build on Q3's successes, with Enterprise revenue increasing by double-digit percentage points year-over-year.

In his prepared comments, Mr. Tan offered an update on the company's VMware purchase, "We're making good progress with our various regulatory filings around the world. We have an excellent team focused on these efforts, and we are moving forward as very much as expected in this regard. We continue to expect the transaction to be completed in Broadcom's fiscal year 2023. We remain excited about our acquisition of VMware and continue to be impressed by the world-class engineering talent as well as strong customer and channel partnerships. We have

tremendous respect for what VMware has built. And together, we will enable enterprises to accelerate innovation and expand choice by addressing the most complex technology challenges in this multi-cloud era."

AVGO expects Q4 revenue around $8.9 billion, which would be up 20% year-over-year and 5% sequentially if achieved. Mr. Tan's acquisition spree hasn't come to an end, despite higher capital costs via rising interest rates. Ruthlessly in pursuit of efficiency and wide margins, we think AVGO is in a good position to pounce should a market sell-off present additional opportunities to expand AVGO's business. Our Target Price has been bumped up to $734.

With the IT sector down nearly 30% this year, we believe there are lots of bargains to be had for those who might not have sufficient exposure. While we like all of our children equally, we wanted to highlight some larger retreats that we think might be worthwhile to take a harder look at: 1) **Apple** (AAPL – $155.81), down 12% this year and a best-of-breed holding with a mountain of cash and high-single-digit growth potential; 2) **Microsoft** (MSFT – $256.06), down 24% this year and a Cloud play with a great recurring revenue business model; 3) **Intel** (INTC – $31.22), down 39% this year and in the early innings of an enormous turn-around effort that would have tremendous upside if successful; 4) **NetApp** (NTAP – $71.28), down 23% this year and a leader in multi-cloud storage environments and data analytics.

Shares of **Bristol-Myers Squibb** (BMY – $68.61) shed about 7% this past Monday after mixed results from a phase 2 trial cast a pall over the trial of an experimental blood thinner many had hoped would prevent secondary strokes. The first-in-class drug, milvexian, was developed in partnership with **Johnson & Johnson's** (JNJ – $162.75) Janssen unit and was found to reduce blood clots for patients undergoing elective total knee replacement surgery without increasing the risk of bleeding.

In a press release, Bristol Myers Squibb said, "The primary objective of this study was to detect a dose response for the composite endpoint of symptomatic ischemic stroke + MRI detected covert brain infarction across a 16-fold dose range; a dose response was not observed. A relative risk reduction of approximately 30% in symptomatic ischemic stroke with milvexian was observed in patients receiving either 25, 50 or 100 mg twice daily compared to placebo." Importantly, however, there was no increase in severe bleeding (e.g., symptomatic intracranial hemorrhage) versus placebo, and there was no fatal bleeding in any arm of the study, even with all patients on background dual antiplatelet therapy for 21 days followed by single antiplatelet therapy for the duration of the trial.

Despite the questions from Phase 2, the two companies plan to continue with a phase 3 trial at a date yet to be determined.

BMY shares trade for less than 9 times the 2023 consensus analyst EPS forecast even as the stock has been an outperformer year-to-date. Bristol has a heritage of supporting its pipeline by bringing in partners to share the development costs and diversify the risks of clinical and regulatory failure, and the acquisition of Celgene in 2019 moves Bristol further into the specialty pharma segment. Recent FDA approval of respective cancer and heart failure drugs Opdualag and Camzyos, along with new approvals for current drug Opdivo, are solid strides to not just

offset losses from multiple myeloma drug Revlimid, which has lost patent protection starting this year, but to continue to grow the top line. The stock has a 3.1% dividend yield and our Target Price is $100.

Shares of **Hewlett Packard Enterprise** (HPE – $13.24) dipped nearly 4% last week even as the firm released fiscal Q3 financial results that were in line with analyst estimates. The enterprise storage and networking concern earned an adjusted $0.480 per share in Q2 (versus $0.477 est.). Revenue for the company's largest segment, Compute, was $3.0 billion (-3.2% y/y), while Intelligent Edge posted 8% y/y growth to $941 million and HPC & AI grew 12% y/y to $830 million. The 34.7% adjusted gross margin was ahead of the consensus estimate by 0.3%.

CEO Antonio Neri commented, "We continue to accelerate our recurrent revenue this fiscal year, which validates the compelling value proposition we offer our customers, and the long and the strong response to HPE GreenLake, our unified Edge-to-Cloud as a service platform. Customers continue to prioritize investments in IT. They find HPE's technology solutions to be particularly relevant in today's complex macroeconomic environment where technology innovation is critical to accelerate business transformation and deliver important business outcomes. In the third quarter, total HPE revenue increased 4% year-over-year to $7 billion, which was also above the sequential outlook we have given. New orders exceeded our expectations despite finally starting to decelerate the growth rates, bringing our quarterly exit backlog to another record level. That is significant, considering that for the previous 4 consecutive quarters, we have grown orders 20% or more year-over-year. We continue to see robust customer demand in the market and a high-quality, durable sales pipeline."

Mr. Neri continued, "We have crafted a strategy at HPE that is winning in the marketplace, and I'm confident in our ability to execute on our commitments with strong demand, a solid pipeline and a unique Edge-to-Cloud offering that is delivering revenue growth and expanded gross margins and operating margins for our company."

HPE reaffirmed its full-year revenue growth between 3% and 4% with free cash flow in the $1.7 billion to $1.9 billion range. The free cash flow range was trimmed by $100 million due to HPE's exit from Belarus and Russia, as well as unfavorable expected currency movements. CFO Tarek Robbiati added, "From an EPS perspective, we are tightening our fiscal year '22 non-GAAP outlook range as we move towards the end of the year to $1.96 to $2.04. This reflects the impact from the supply environment, which we expect to sustain into Q4 and further appreciation of the U.S. dollar since last quarter. As a result, this implies that for Q4 '22, we expect GAAP diluted net EPS of $0.32 to $0.40 and non-GAAP diluted net EPS of $0.52 to $0.60."

HPE's transformation is underway, while the stock price movement seems to indicate that investors believe there will still be plenty of fits and starts. The company's domestic Bloomberg peer group has an average forward P/E around 27, compared with HPE's 6.3x figure. We think with some sustainable execution, HPE has plenty of room to expand its multiples, in addition to growing the underlying figures like earnings and revenue. We believe the valuation is very reasonable and the 3.6% dividend yield provides a nice payout for our patience. Our Target Price is $21.

Shares of **Big Lots** (BIG – $21.39) remained under pressure last week as the discount retailer lost $2.91 per share in fiscal Q2 (vs. the $2.46 loss expected by the Street). The result was due to both higher expenses and elevated promotional activity, which management said will continue into Q3. The effort materially brought down excess inventory to below where it was at the beginning of the year but came at the cost of gross margin, which was down 7% year-over-year to 32.6%.

CEO Bruce Thorn stated, "We remain laser focused on helping our customers navigate these challenging times by delivering outstanding value across our assortment. We are managing the business prudently, while working hard to build a stronger company and deliver on our commitments to our customers, associates, and shareholders…We managed costs tightly, made great progress on repositioning our assortment towards better bargains/closeouts and lower price points, and took important steps to enhance our balance sheet and secure our liquidity."

Regarding the balance sheet, the company expects to obtain a new credit facility during fiscal Q3, replacing and refinancing its existing $600 million 5-year unsecured credit facility. It is currently in talks with PNC Capital Markets LLC and PNC Bank, National Association, has agreed to arrange, on a best efforts basis, a 5-year syndicated asset-based revolving credit facility up to $900 million, with an additional uncommitted increase option of up to $300 million.

On the state of the consumer, Mr. Thorn added, "Consumers are stretched by inflation and starting to trade down more. We are here to help them, with strategically adjusted opening price points and great value throughout our stores. Further, we are making our bargains/closeouts and treasures even easier to find with end-caps and signage that are simpler and more compelling. We are moving faster to provide even better deals and assortments for our customers by leveraging our vendor relationships and excellent private label brands. We are also building additional capabilities to grow our ecommerce business. We remain highly confident in the enormous value creation opportunity from Operation North Star, and I've never been more excited about the future."

Management has elected not to provide EPS guidance at this point citing "an atypically wide range of outcomes." More of the same (higher expenses and promotional activity) is expected for fiscal Q3, although analysts project a return to profitability next year. The current environment has affected retailers both large and small, and while BIG has a lot on its plate as its core customer is forced to deal with inflation, we think that shoppers will continue to seek out its stores as finding a solid bargain is more valuable than ever. We think the pessimism has gone too far as shares have fallen more than two thirds from their pandemic high. Our Target Price is $43 and BIG yields 5.6%.