Market Commentary Monday, September 26, 2022

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EXECUTIVE SUMMARY

Market Week – Another Sizable Selloff
Sentiment – 4th Most Pessimistic AAII Numbers Ever: Major Contrarian Buy Signal
Bear Markets – 2022, 2020, 2018, 2016…20% Setbacks Have Happened Before and Will Happen Again
Hawkish Fed – 75-Basis-Point Hike
Econ Outlook – Mixed Data but Recession More Likely
History – Value the Place to Be When Inflation is High, Before/After Recession & During the Volcker Years
Valuations -Stocks Still Attractively Priced; Liking our Metrics
Stock News – Updates on CHNG, GM, MRNA, QCOM & FDX

Market Review

Including Vladimir Putin threatening to raise the stakes in the War in Ukraine and culminating with a sigh of relief that the Dow Jones Industrial Average rebounded in the final hour on Friday to lose *only* 486 points on Friday, it was a terrible week for equities,…

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 have been very volatile, with the bad kind of volatility happening last week. The Nasdaq Composite index is now down 30.1% and the U.S. Aggregate Bond index is off 13.7% 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	-4.00	-17.30	-13.15	15.99	14.97	67.45	16.93	47.70	Dow Jones Industrial Average	DJITR Index
1.01	-10.21	A	-5.31	-18.07	-14.59	16.13	17.06	67.07	13.55	29.00	New York Stock Exchange Composite	NYA Index
-39.18	-20.81	R	-5.06	-30.11	-27.23	1.08	3.77	61.54	37.43	77.37	Nasdaq Composite Index	CCMP Index
-22.43	-9.23	K	-7.06	-29.70	-32.53	-7.02	-2.73	50.47	5.19	21.71	Russell 2000 Growth	RU20GRTR Index
22.83	**14.02**	E	**-6.08**	**-19.29**	**-16.29**	**33.30**	**43.65**	**94.56**	**15.94**	**21.48**	**Russell 2000 Value**	**RU20VATR Index**
-3.02	2.49	T	-6.58	-24.48	-24.70	11.58	18.39	72.59	11.88	23.46	Russell 2000	RU20INTR Index
-11.75	-20.15		-6.49	-30.98	-32.63	-7.51	-3.56	53.38	12.64	46.67	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	**2.33**		**-5.85**	**-18.32**	**-13.12**	**25.08**	**30.30**	**91.20**	**16.71**	**30.99**	**Russell Midcap Value Index Total Return**	**RUMCVATR Index**
8.25	-5.62	O	-6.08	-22.84	-20.47	12.71	17.45	78.62	17.79	41.00	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63	F	-4.72	-28.69	-24.39	4.18	5.71	67.16	36.11	79.02	Russell 3000 Growth	RU30GRTR Index
8.04	**-4.33**		**-5.26**	**-15.83**	**-11.17**	**24.98**	**27.46**	**74.69**	**16.14**	**32.90**	**Russell 3000 Value**	**RU30VATR Index**
-7.46	-11.46	S	-4.98	-22.61	-18.13	13.98	15.94	71.95	27.39	56.58	Russell 3000	RU30INTR Index
9.64	-0.39	T	-5.54	-18.61	-13.47	25.74	29.01	90.14	27.62	52.50	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89	O	-4.63	-21.61	-15.71	16.24	17.59	71.70	29.68	61.31	S&P 500	SPXT Index
-22.08	-12.73		-4.47	-28.22	-22.01	8.20	9.57	69.33	36.06	78.24	S&P 500 Growth	SPTRSGX Index
6.08	**-11.71**	C	**-4.79**	**-14.23**	**-8.91**	**25.15**	**26.39**	**70.18**	**19.10**	**39.81**	**S&P 500 Value**	**SPTRSVX Index**
3.18	1.57	K	-2.44	-19.31	-20.81	-20.66	-20.52	-13.53	-15.88	-11.01	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44	S	-1.56	-13.75	-14.24	-14.13	-14.62	-9.65	-8.39	-0.45	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 09.23.22. Source Kovitz using data from Bloomberg

…pushing the average stock and the major market averages back into Bear Market territory,…

THE PRUDENT SPECULATOR

2022 BEAR MARKET – MAJOR PLUNGE FOR GROWTH

The average member of the Russell 3000 and NASDAQ Composite Indexes has tumbled deep into a Bear Market (down 20% or more), but the Value benchmarks, despite major red ink, have held up better relative to Growth.

2022 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
1/4/2022	9/23/2022	-24.39%	Russell 3000 Average Stock	11/22/2021	9/23/2022	-26.47%	NASDAQ Composite Average Stock
1/5/2022	9/23/2022	-20.84%	Dow Jones Industrial Average	11/22/2021	6/16/2022	-36.90%	S&P 500 Pure Growth Index
11/22/2021	6/16/2022	-34.83%	NASDAQ Composite Index	4/21/2022	9/23/2022	-16.98%	S&P 500 Pure Value Index
1/4/2022	6/16/2022	-25.32%	Russell 1000 Index	11/5/2021	9/23/2022	-41.35%	S&P 500 Communication Services
11/8/2021	6/16/2022	-33.24%	Russell 2000 Index	11/22/2021	6/16/2022	-38.81%	S&P 500 Consumer Discretionary
1/4/2022	6/16/2022	-25.50%	Russell 3000 Index	4/21/2022	6/16/2022	-16.92%	S&P 500 Consumer Staples Secto
1/4/2022	6/17/2022	-24.52%	S&P 500 INDEX	6/8/2022	7/14/2022	-27.13%	S&P 500 Energy Sector GICS Lev
11/22/2021	6/16/2022	-33.27%	Russell 1000 Growth Index	1/13/2022	7/14/2022	-27.16%	S&P 500 Financials Sector GICS
1/5/2022	9/23/2022	-19.55%	Russell 1000 Value Index	4/8/2022	6/16/2022	-17.48%	S&P 500 Health Care Sector GIC
11/8/2021	6/16/2022	-41.46%	Russell 2000 Growth Index	1/5/2022	9/23/2022	-22.30%	S&P 500 Industrials Sector GIC
11/8/2021	9/23/2022	-26.45%	Russell 2000 Value Index	12/28/2021	6/16/2022	-31.37%	S&P 500 Information Technology
11/22/2021	6/16/2022	-33.60%	Russell 3000 Growth Index	1/5/2022	9/23/2022	-26.77%	S&P 500 Materials Sector GICS
1/5/2022	9/23/2022	-19.78%	Russell 3000 Value Index	12/31/2021	9/23/2022	-28.82%	S&P 500 Real Estate Sector GIC
12/28/2021	6/16/2022	-32.25%	S&P 500 Growth Index	4/8/2022	6/17/2022	-16.31%	S&P 500 Utilities Sector GICS
1/5/2022	9/23/2022	-18.55%	S&P 500 Value Index				

Price Returns for Indexes and Total Returns for Average Stock. Source Kovitz using data from Bloomberg

…and sending one prominent investor sentiment gauge to near-record levels of pessimism.

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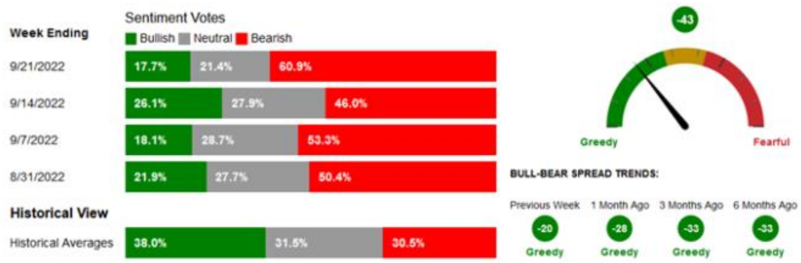
MAJOR CONTRARIAN BUY SIGNAL: SUPER PESSIMISTIC AAII SENTIMENT

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



AAII Bulls & Russell 3000 Forward TR

Date	Bulls	1W RET	1M RET	3M RET	6M RET
11/15/1990	12.0	-0.4%	3.6%	18.4%	20.1%
10/6/1988	13.0	0.7%	1.1%	3.2%	9.9%
3/9/1989	13.0	1.7%	1.3%	12.2%	19.9%
9/20/1990	13.0	-3.7%	-0.5%	6.9%	21.5%
10/18/1990	13.0	1.5%	4.5%	10.1%	32.1%
9/3/1992	14.0	0.5%	-1.5%	5.2%	10.7%
2/1/1990	15.0	1.7%	1.9%	1.9%	8.8%
10/4/1990	15.0	-5.5%	-0.5%	4.3%	26.2%
4/14/2022	15.8	-0.2%	-8.8%	-14.0%	
7/21/1988	16.0	-0.3%	-1.9%	6.1%	8.2%
9/13/1990	16.0	-2.3%	-6.4%	4.1%	20.5%
11/22/1990	16.0	0.4%	5.5%	18.1%	23.0%
12/20/1990	16.0	-0.3%	0.6%	13.7%	17.2%
4/28/2022	16.4	-3.3%	-3.0%	-4.8%	
4/14/2005	16.5	0.0%	-0.4%	7.2%	4.2%
9/8/1988	17.0	0.9%	4.3%	3.8%	12.0%
11/24/1988	17.0	1.5%	3.5%	8.4%	21.1%
12/8/1988	17.0	-0.7%	2.1%	7.9%	21.0%
9/22/2022	17.8				
18 Period Average		-0.4%	0.2%	6.2%	17.0%
All Periods Average		0.2%	0.9%	2.7%	5.7%

Source: American Association of Indivdual Investors and Bloomberg

AAII Bull-Bear Spread & Russell 3000 Forward TR

Date	Spread	1W RET	1M RET	3M RET	6M RET
10/18/1990	-54.0	1.5%	4.5%	10.1%	32.1%
3/5/2009	-51.4	10.3%	24.5%	40.3%	52.7%
10/4/1990	-44.0	-5.5%	-0.5%	4.3%	26.2%
9/20/1990	-43.2				
3 Period Average		2.1%	9.5%	18.3%	37.0%
All Periods Average		0.2%	0.9%	2.8%	5.9%

Source: American Association of Indivdual Investors and Bloomberg

AAII Bears & Russell 3000 Forward TR

Date	Bears	1W RET	1M RET	3M RET	6M RET
3/5/2009	70.3	10.3%	24.5%	40.3%	52.7%
10/18/1990	67.0	1.5%	4.5%	10.1%	32.1%
8/30/1990	61.0	0.5%	-4.4%	1.4%	19.1%
9/22/2022	60.9				
3 Period Average		4.1%	8.2%	17.3%	34.6%
All Periods Average		0.2%	0.9%	2.8%	5.9%

on of Indivdual Investors and Bloomberg

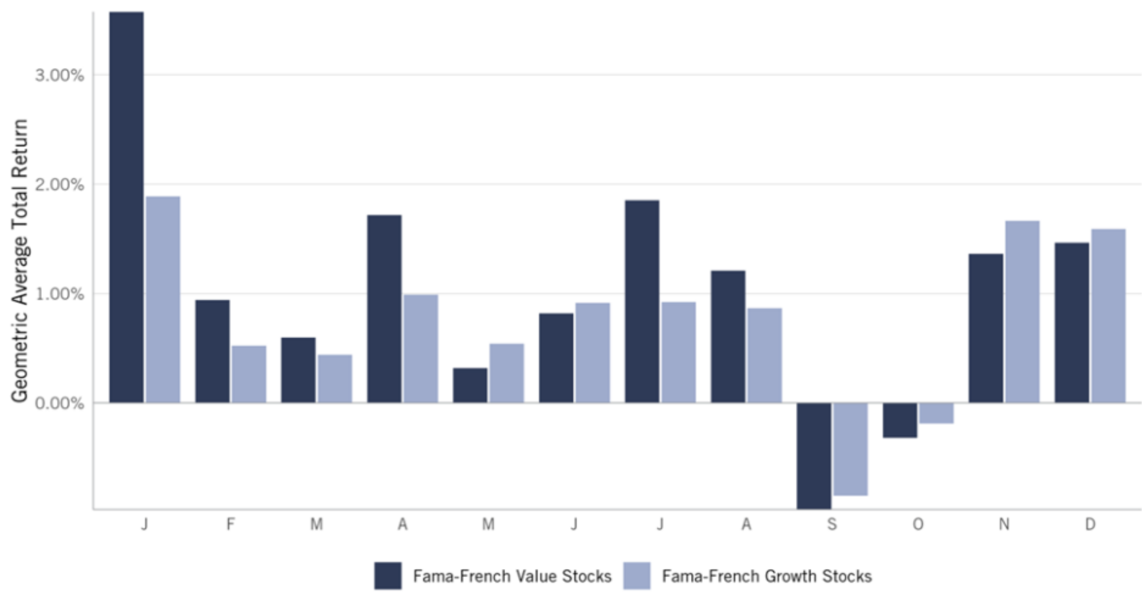
The gauge is widely viewed with a contrarian eye, so the number of AAII Sentiment Survey Bulls coming in at 17.7% arguably is a superb equity market buy signal, as it represents the 19th fewest number of optimists in the 35-year history of the weekly gauge. Even more interesting is that the number of Bears at 60.9% and the minus 43.2% Bull-Bear Spread have only been more pessimistic on three other occasions since 1987. Only a handful of data points, to be sure, but we like what the subsequent 6-month return figures show in the charts to the left! The past is no guarantee of the future, but there really is evidence backing up the assertion to be greedy when others are fearful!

No doubt, the selloff has been disconcerting, and history shows that September is statistically the worst month of the year,…

THE PRUDENT SPECULATOR

SEPTEMBER STATISTICALLY THE WORST MONTH OF THE YEAR

Mark Twain said, "October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." Of course, history shows that, on average, September and October are the only two months with negative returns.



From 12.31.27 through 12.31.21. Geometric average. 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. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

…but stock market corrections happen with surprising frequency,…

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	6/16/2022	-20.83%	BEAR	3/8/2022	3/29/2022	11.05%	BULL
8/16/2022	9/23/2022	-14.21%	BEAR	6/16/2022	8/16/2021	17.41%	BULL
Average Drop		**-18.17%**		**Average Gain**		**40.82%**	

SOURCE: Kovitz using data from Bloomberg

Trading has been volatile this year, to say the least, with stocks suffering 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, it closed on 6.16.22 below the Bear Market level with a 20.83% decline from the 03.29.22 interim high, before soaring 17.41% over the next two months. However, a new downturn has since set in, with the S&P now off 14.21% from its August high-water mark. Of course, ups and downs are not unusual for equities, and we are now enduring the 37th decline of 10% or greater since the launch of *The Prudent Speculator* 45+ years ago. Happily, there also have been 37 rallies of 10% or more along the way, with the average gain during those periods in the green dwarfing the average loss for times in the red.

…while the average stock also endured a 20%-plus Bear Market plunge in 2020,…

THE PRUDENT SPECULATOR

2020 BEAR MARKET – SOMETIMES EVERYTHING IS CRUSHED

We do not want to water down the magnitude of the current decline, but equities performed far worse in 2020 as COVID-19 became a pandemic and governments quickly responded with lockdowns that devastated the global economy.

2020 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
2/19/2020	3/23/2020	-40.54%	Russell 3000 Average Stock	2/19/2020	3/23/2020	-34.03%	NASDAQ Composite Average Stock
2/12/2020	3/23/2020	-38.40%	Dow Jones Industrial Average	2/19/2020	3/23/2020	-38.19%	S&P 500 Pure Growth Index
2/19/2020	3/23/2020	-32.60%	NASDAQ Composite Index	1/17/2020	3/23/2020	-51.78%	S&P 500 Pure Value Index
2/19/2020	3/23/2020	-36.23%	Russell 1000 Index	2/19/2020	3/23/2020	-31.26%	S&P 500 Communication Services
1/17/2020	3/18/2020	-43.66%	Russell 2000 Index	2/19/2020	3/18/2020	-36.94%	S&P 500 Consumer Discretionary
2/19/2020	3/23/2020	-36.66%	Russell 3000 Index	2/18/2020	3/23/2020	-26.15%	S&P 500 Consumer Staples Secto
2/19/2020	3/23/2020	-35.41%	S&P 500 Index	4/26/2019	3/18/2020	-65.24%	S&P 500 Energy Sector GICS Lev
2/19/2020	3/23/2020	-33.50%	Russell 1000 Growth Index	2/12/2020	3/23/2020	-43.93%	S&P 500 Financials Sector GICS
2/12/2020	3/23/2020	-39.57%	Russell 1000 Value Index	1/22/2020	3/23/2020	-24.47%	S&P 500 Health Care Sector GIC
2/19/2020	3/18/2020	-42.64%	Russell 2000 Growth Index	2/12/2020	3/23/2020	-27.66%	S&P 500 Industrials Sector GIC
1/17/2020	3/23/2020	-46.76%	Russell 2000 Value Index	2/19/2020	3/23/2020	-13.61%	S&P 500 Information Technology
2/19/2020	3/23/2020	-33.98%	Russell 3000 Growth Index	1/2/2020	3/18/2020	-38.12%	S&P 500 Materials Sector GICS
1/17/2020	3/23/2020	-39.97%	Russell 3000 Value Index	2/21/2020	3/23/2020	-21.17%	S&P 500 Real Estate Sector GIC
2/19/2020	3/23/2020	-33.35%	S&P 500 Growth Index	2/18/2020	3/23/2020	-17.66%	S&P 500 Utilities Sector GICS
2/12/2020	3/23/2020	-38.34%	S&P 500 Value Index				

Price Returns for Indexes and Total Returns for Average Stock. Source: Bloomberg

…and in 2018,…

THE PRUDENT SPECULATOR

2018 BEAR MARKET – AVERAGE STOCK HIT VERY HARD

While many claim that the 2018 plunge does not count as a Bear Market, given that the S&P 500 did not fall more than 20% from its high on a closing basis, it did breach that threshold intraday AND all the Russell indexes and the Nasdaq Composite had official Bear setbacks,

2018 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
9/20/2018	12/24/2018	-24.58%	Russell 3000 Average Stock	8/28/2018	12/24/2018	-24.64%	NASDAQ Composite Average Stock
10/3/2018	12/26/2018	-19.44%	Dow Jones Industrial Average	8/29/2018	12/24/2018	-23.28%	S&P 500 Pure Growth Index
8/30/2018	12/24/2018	-23.89%	NASDAQ Composite Index	1/24/2018	12/26/2018	-25.36%	S&P 500 Pure Value Index
9/21/2018	12/26/2018	-20.46%	Russell 1000 Index	2/1/2018	12/24/2018	-22.90%	S&P 500 Communication Services
8/31/2018	12/24/2018	-27.28%	Russell 2000 Index	10/1/2018	12/24/2018	-23.88%	S&P 500 Consumer Discretionary
9/21/2018	12/26/2018	-20.91%	Russell 3000 Index	1/29/2018	12/26/2018	-18.12%	S&P 500 Consumer Staples Secto
9/21/2018	12/26/2018	-20.21%	S&P 500 Index	5/22/2018	12/26/2018	-32.25%	S&P 500 Energy Sector GICS Lev
10/1/2018	12/24/2018	-22.64%	Russell 1000 Growth Index	1/29/2018	12/26/2018	-27.13%	S&P 500 Financials Sector GICS
1/26/2018	12/26/2018	-20.64%	Russell 1000 Value Index	10/1/2018	12/24/2018	-16.90%	S&P 500 Health Care Sector GIC
8/31/2018	12/24/2018	-29.11%	Russell 2000 Growth Index	1/29/2018	12/26/2018	-25.86%	S&P 500 Industrials Sector GIC
8/27/2018	12/26/2018	-25.99%	Russell 2000 Value Index	10/3/2018	12/24/2018	-24.50%	S&P 500 Information Technology
10/1/2018	12/24/2018	-23.02%	Russell 3000 Growth Index	1/26/2018	12/26/2018	-26.58%	S&P 500 Materials Sector GICS
1/26/2018	12/26/2018	-20.69%	Russell 3000 Value Index	12/6/2018	12/24/2018	-12.83%	S&P 500 Real Estate Sector GIC
10/1/2018	12/24/2018	-21.34%	S&P 500 Growth Index	12/13/2018	12/24/2018	-9.20%	S&P 500 Utilities Sector GICS
1/26/2018	12/26/2018	-21.63%	S&P 500 Value Index				

…and in 2016.

2015/2016 BEAR MARKET – AVERAGE STOCK YES, CAP-WEIGHT INDEXES NO

Equity markets outside the U.S., led by China, suffered official Bear Markets in 2015/2016, and the average member of the Russell 3000 and NASDAQ Composite Indexes breached the 20% loss mark, but we suspect that most investors have forgotten about this sizable setback.

2016 Bear Market

Start	End	Perf	Instrument	Start	End	Perf	Instrument
6/23/2015	2/11/2016	-23.6%	Russell 3000 Average Stock	7/20/2015	2/11/2016	-23.7%	NASDAQ Composite Average Stock
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average	11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF	7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF	11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.	7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index	5/21/2015	2/11/2016	-14.2%	S&P 500 Index
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index	2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index	12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index	2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index	3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index	2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index	4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index	1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index	5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index	6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange

Happily, despite all of those downturns, and numerous others through the years, equities have delivered terrific long-term returns,…

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	312	0.3	9/6/2022	9/12/2022

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%	-22.7%	137	73	1.3	8/16/2022	9/23/2022
-10.0%	-19.5%	101	100	0.9	8/16/2022	9/23/2022
-7.5%	-15.5%	65	159	0.6	8/16/2022	9/23/2022
-5.0%	-10.9%	36	312	0.3	9/12/2022	9/23/2022

From 02.20.28 through 09.23.22. 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%	4.3%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

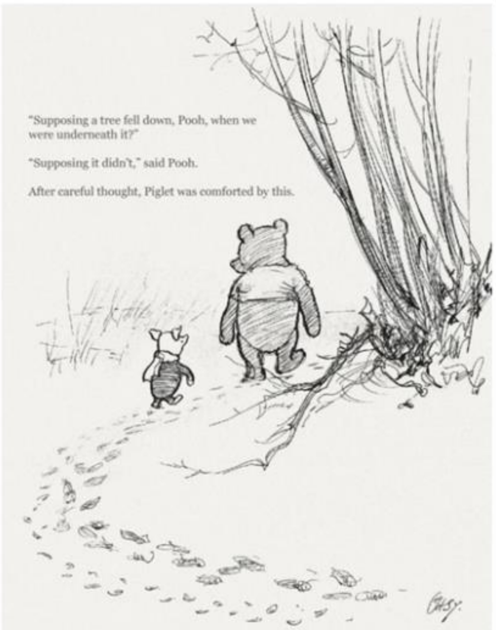
From 06.30.27 through 07.31.22. Growth stocks = 50% Fama-French small growth and 50% Fama-French large growth returns rebalanced monthly. Value stocks = 50% Fama-French small value and 50% Fama-French large value returns rebalanced monthly. The portfolios are formed on Book Equity/Market Equity at the 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

…even with the newspaper headlines seemingly always providing plenty of headwinds.

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%	42449%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	24522%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	22028%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	8568%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	8003%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9375%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	6805%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5206%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	3859%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4796%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3907%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5177%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3410%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3660%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2991%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2181%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1409%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1543%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1068%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	881%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	797%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	733%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	708%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	631%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	321%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	285%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	200%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	175%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	282%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	303%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	238%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	208%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	446%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**5066%**

As of 9.23.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

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Though stocks rallied briefly on Wednesday during Jerome H. Powell's Press Conference that followed the Federal Reserve's decision to hike interest rates by another 75 basis points,…

THE PRUDENT SPECULATOR

FOMC STATEMENT: 9.21.22

Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee is highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3 to 3-1/4 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective.

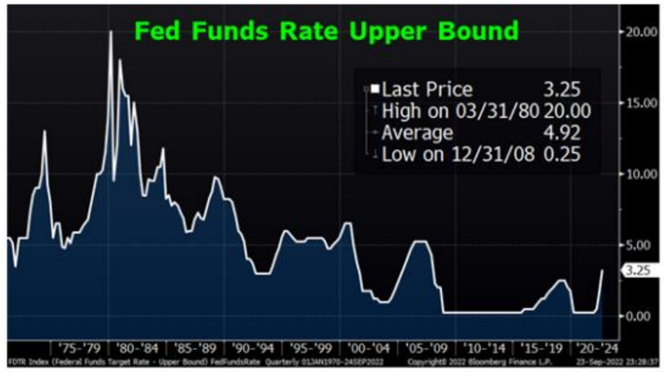
In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

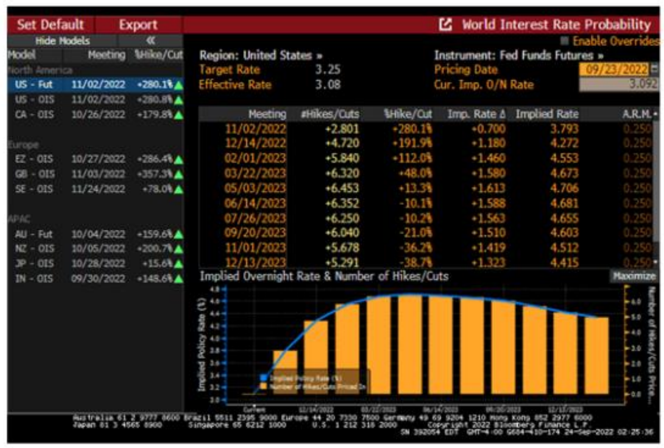
…his use of the word "pain" again proved problematic. The Fed Chair explained, "We have got to get inflation behind us. I wish there were a painless way to do that. There isn't." The hawkish statement caused the Fed Funds futures to forecast a 4.71% high on the Fed Funds rate next year, up from 4.40% a week ago,…

THE PRUDENT SPECULATOR

FED FIGHTING INFLATION – INTEREST RATES STILL HISTORICALLY LOW

Although the estimate for real GDP growth this year was pared to 0.2% in September, down from 2.8% in March, the Federal Reserve lifted its target for the Fed Funds rate by 75 basis points at each of the June, July and September FOMC meetings. Jerome H. Powell & Co. were projecting that the Fed Funds rate will likely end the year at 4.4%, which still would be below the historical average. The Fed Funds futures grew much more hawkish last week, with a projected 4.27% year-end Fed Funds rate and a 4.71% estimated peak for May 2023, before a cut in June 2023.





…which echoed the latest projections for the benchmark lending rate from the Federal Reserve Board Members.

THE PRUDENT SPECULATOR

FED: HIGHER INFLATION AND FED FUNDS & LOWER GDP GROWTH EXPECTED

With inflation remaining elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures, not to mention Russia's war against Ukriane, Federal Reserve members have sharply increased their estimates for the Fed Funds rate. The median PCE inflation projection for 2022 now stands at 5.4% with the year-end forecast for the Fed Funds rate climbing to 4.4%, up from the prior 3.4% estimate offered in June.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2022

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

Source: Federal Reserve, September 21, 2022

Of course, though history shows that Tightening cycles, on average, are not reason to abandon stocks,…

THE PRUDENT SPECULATOR

FED TIGHTENING – VALUE & DIVIDEND PAYERS THE PLACE TO BE

Rates Change and Equities Rise

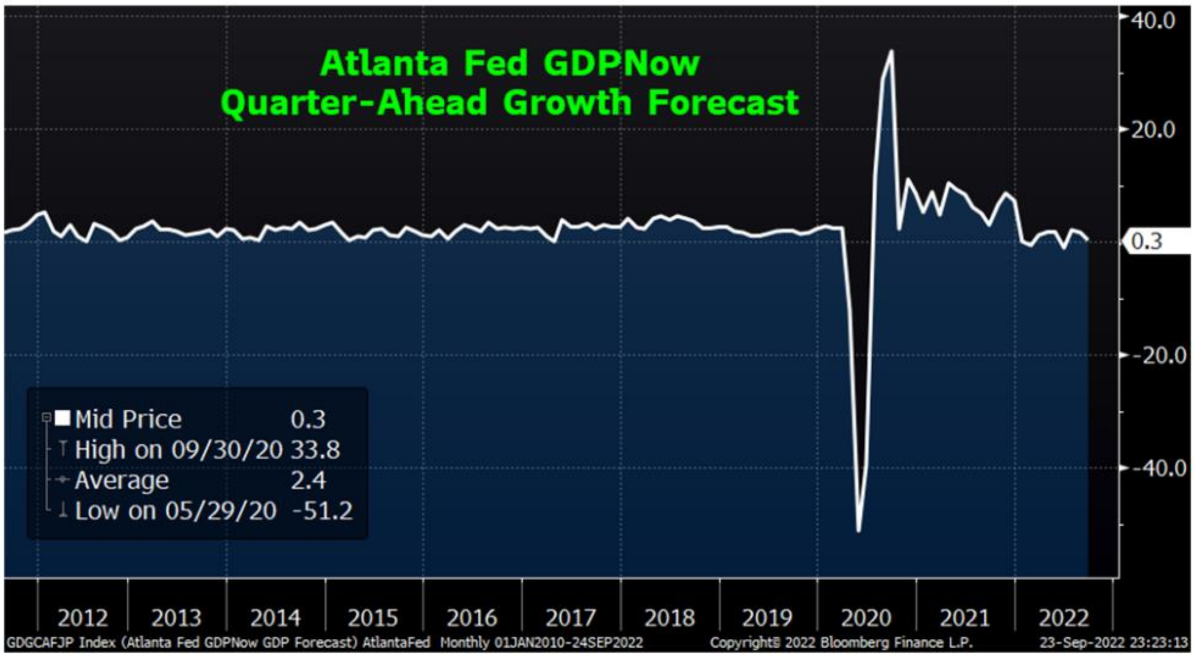
Beginning Rate	Rate Environment	Start Date	End Date	Large Stocks	Small Stocks	Value Stocks	Growth Stocks	Div. Payers	Non-Payers
9.0%	FALLING	01.31.1970	02.29.1972	15.5%	8.0%	18.5%	13.5%	2.3%	15.5%
3.3%	RISING	03.31.1972	07.31.1974	-9.3%	-19.5%	-8.9%	-23.4%	-30.8%	-9.8%
12.9%	FALLING	08.31.1974	01.31.1977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

…the Fed lowered its projection for real (inflation-adjusted) GDP growth this year to 0.2% and 1.2% next year, while the outlook for the near-term health of the economy continued to retreat.

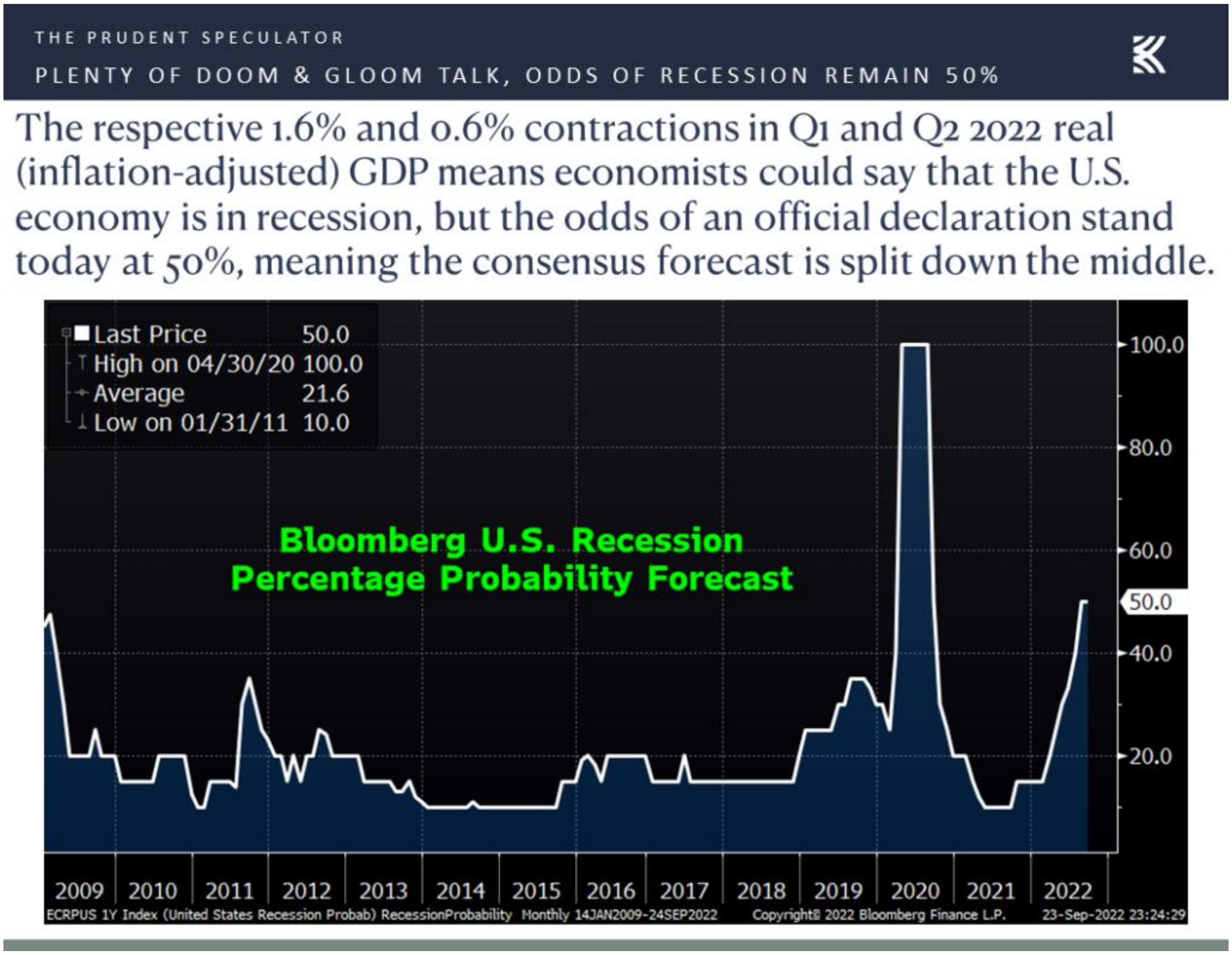
THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION RETREATS TO 0.3%

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 20 stood at 0.3%.



No doubt, the odds of recession are high,…



…and the Conference Board is now predicting an economic contraction will occur,…

THE PRUDENT SPECULATOR

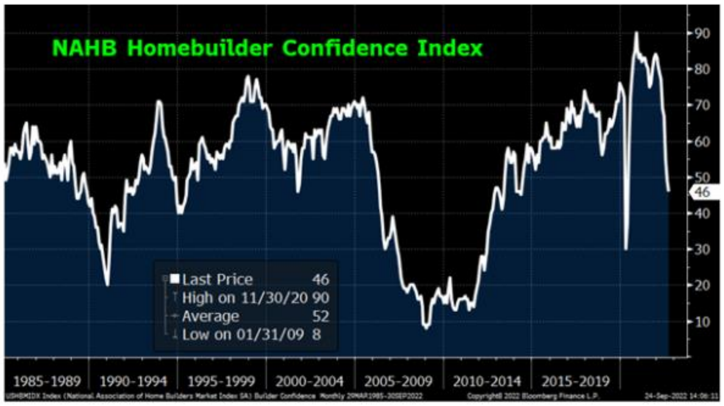
LEI DROPS BY 0.3% IN AUGUST…CONFERENCE BOARD PROJECTING RECESSION

"The U.S. LEI declined for a sixth consecutive month potentially signaling a recession. Among the index's components, only initial unemployment claims and the yield spread contributed positively over the last six months—and the contribution of the yield spread has narrowed recently…Furthermore, labor market strength is expected to continue moderating in the months ahead. Indeed, the average workweek in manufacturing contracted in four of the last six months—a notable sign, as firms reduce hours before reducing their workforce. Economic activity will continue slowing more broadly throughout the US economy and is likely to contract. A major driver of this slowdown has been the Federal Reserve's rapid tightening of monetary policy to counter inflationary pressures. The Conference Board projects a recession."

…while existing home sales dropped 0.4% in August and data on the prospects for new homes were not great.

THE PRUDENT SPECULATOR

HOUSING DATA SLOWS FURTHER



The National Association of Home Builders' monthly confidence index for September trailed forecasts, skidding to 46, down 3 points from August and coming in below the long-term average on the 35-year-old gauge. High prices and the spike in mortgage rates did not help, even as ground was broken on 1.58 million homes last month, up from 1.40 million in July. Of course, there was a big drop in building permits in August, so the housing outlook has weakened.

On the other hand, the labor situation remains strong,…

THE PRUDENT SPECULATOR

STRONG LABOR MARKET: CONTINUING CLAIMS STILL NEAR 50+ YEAR LOWS

While higher than readings earlier in the year 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 September 17 were a seasonally adjusted 213,000, up from a revised 208,000 the week prior. Continuing claims filed through state programs fell to 1.38 million, near the lowest level since 1969 as businesses continue to hold onto workers with labor so difficult to obtain.

…and the latest read on the health of the factory and services sectors were better than expected.

THE PRUDENT SPECULATOR

S&P GLOBAL MARKIT PMI READINGS MOVE HIGHER IN SEPTEMBER

The S&P Global Markit preliminary U.S. PMIs for the factory and services sectors in September came in at 51.8 and 49.2, both above expectations. S&P Global commented, "U.S. businesses are reporting a third consecutive monthly fall in output during September, rounding off the weakest quarter for the economy since the global financial crisis if the pandemic lockdowns of early-2020 are excluded. However, while output declined in both manufacturing and services during September, in both cases the rate of contraction moderated compared to August, notably in services, with orders books returning to modest growth, allaying some concerns about the depth of the current downturn. There was also better news on inflation, with supplier shortages easing to the lowest since October 2020, helping take some of the pressure off raw material prices."

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To be sure, nobody knows for sure how the economic conditions will evolve, including the Federal Reserve. As Chair Powell explained, "Over coming months, we will be looking for compelling evidence that inflation is moving down, consistent with inflation returning to 2 percent. We anticipate that ongoing increases in the target range for the federal funds rate will be appropriate; the pace of those increases will continue to depend on the incoming data and the evolving outlook for the economy. With today's action, we have raised interest rates by 3 percentage points this year. At some point, as the stance of monetary policy tightens further, it will become appropriate to slow the pace of increases, while we assess how our cumulative policy adjustments are affecting the economy and inflation. We will continue to make our decisions meeting by meeting and communicate our thinking as clearly as possible."

The economy very well could go into recession, but such an event, historically, has not been a reason to sell stocks, on average, especially those of the Value persuasion,…

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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 real 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

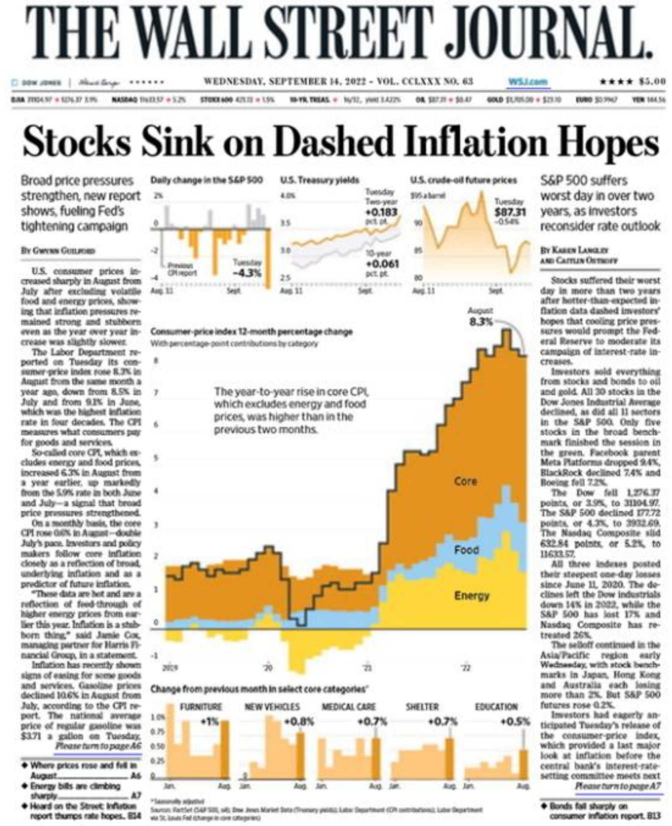
Year Prior S&P 500 TR	Year Prior FF Value TR	Recession Start Date	1 Year S&P 500 TR	1 Year FF Value TR	3 Year S&P 500 TR	3 Year FF Value TR	5 Year S&P 500 TR	5 Year FF Value TR	10 Year S&P 500 TR	10 Year FF Value TR
51.9%	30.6%	August 1929	-32.6%	-32.0%	-73.5%	-65.1%	-71.1%	-61.7%	-58.0%	-48.4%
18.2%	42.0%	May 1937	-39.3%	-55.8%	-33.2%	-55.0%	-32.5%	-44.7%	53.7%	140.3%
26.3%	56.8%	February 1945	26.0%	42.0%	12.0%	28.6%	64.3%	75.6%	379.2%	469.5%
4.0%	4.8%	November 1948	19.2%	12.2%	101.8%	109.3%	145.2%	130.8%	542.0%	586.7%
3.1%	4.7%	July 1953	31.9%	25.4%	128.9%	118.2%	136.5%	138.6%	308.5%	385.1%
-1.2%	-0.3%	August 1957	10.0%	16.6%	40.2%	55.8%	55.1%	79.0%	188.9%	421.8%
-2.4%	-6.3%	April 1960	24.2%	29.5%	41.7%	51.9%	92.4%	130.9%	107.7%	270.1%
-8.4%	-20.9%	December 1969	3.9%	8.7%	41.4%	39.8%	-11.3%	-7.6%	77.0%	264.4%
-15.2%	-19.4%	November 1973	-23.8%	-14.8%	20.8%	77.2%	23.7%	142.2%	182.3%	716.8%
20.6%	30.5%	January 1980	19.5%	12.5%	49.5%	81.1%	102.4%	183.6%	342.4%	480.0%
13.0%	23.2%	July 1981	-13.3%	-0.7%	34.0%	78.2%	127.9%	199.8%	343.5%	405.4%
6.5%	-7.2%	July 1990	12.7%	10.0%	38.2%	75.2%	83.2%	125.3%	407.4%	436.7%
-21.7%	22.3%	March 2001	0.2%	13.1%	1.9%	34.3%	21.4%	83.7%	38.3%	85.6%
5.6%	-8.0%	December 2007	-37.0%	-36.5%	-8.3%	-7.8%	8.6%	4.2%	125.8%	116.4%
8.2%	-9.6%	February 2020	31.3%	39.0%						
7.2%	**9.5%**	**Averages**	**2.2%**	**4.6%**	**28.2%**	**44.4%**	**53.3%**	**84.3%**	**217.0%**	**337.9%**

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

…while the long-term evidence shows that equities have traditonally been a good hedge against inflation.

THE PRUDENT SPECULATOR

EQUITY RETURNS AND 8%+ INFLATION – VALUE STOCKS THE PLACE TO BE



Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	2.4%	10.4%	6.0%	25.1%	15.1%
Geometric Average	3.6%	1.8%	8.9%	4.6%	22.2%	12.8%
Median	3.8%	1.7%	6.7%	4.7%	17.7%	12.8%
Max	50.9%	32.9%	82.7%	60.8%	134.0%	64.2%
Min	-19.2%	-27.6%	-26.4%	-35.9%	-20.9%	-30.6%
Count	110	110	110	110	110	110

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

Inflation Rate <8.0% and Ensuing Value/Growth Returns Since 1927						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.2%	3.1%	8.1%	6.1%	16.4%	12.3%
Geometric Average	3.1%	2.4%	6.2%	4.8%	12.3%	9.4%
Median	4.0%	3.5%	8.0%	6.2%	16.6%	12.8%
Max	200.5%	136.1%	244.7%	140.3%	357.8%	221.9%
Min	-43.1%	-40.4%	-56.1%	-47.0%	-71.3%	-64.8%
Count	1027	1027	1024	1024	1018	1018

Source: Kovitz using data from Ibbotson Associates 06.30.27 - 4.30.22.

Inflation Rate >= 8.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	4.0%	2.9%	8.8%	6.4%	22.4%	17.0%
Geometric Average	3.5%	2.2%	7.7%	4.6%	21.1%	14.4%
Median	4.7%	2.6%	6.9%	6.3%	21.7%	21.2%
Max	39.6%	32.9%	63.0%	60.8%	60.2%	63.4%
Min	-16.5%	-27.6%	-26.4%	-35.9%	-20.9%	-30.6%
Count	63	63	63	63	63	63

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

Inflation Rate < 8.0% and Ensuing Value/Growth Returns Since 1957						
Metric	Value Stocks 3 Month	Growth Stocks 3 Month	Value Stocks 6 Month	Growth Stocks 6 Month	Value Stocks 12 Months	Growth Stocks 12 Months
Arithmetic Average	3.8%	2.9%	7.7%	5.8%	15.7%	11.8%
Geometric Average	3.3%	2.4%	6.7%	4.9%	13.7%	9.9%
Median	4.1%	3.3%	8.1%	6.1%	17.2%	12.7%
Max	37.8%	32.5%	68.5%	49.8%	105.8%	93.6%
Min	-39.5%	-34.9%	-54.2%	-41.7%	-52.2%	-48.0%
Count	716	716	713	713	707	707

Source: Kovitz using data from Ibbotson Associates 03.31.57 - 04.30.22.

And, with so many comparing the current environment to the late-70's, we cannot forget the fantastic returns on stocks during the Volcker years, when the then-Fed Chair dramatically hiked interest rates, triggering two recessions in the process.

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

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Certainly, we understand that there is no assurance that the past is prologue, but the current estimates for corporate profits do not call for an earnings contraction next year,…

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Q3 AND 2022 AND 2023 EARNINGS GROWTH STILL THE ESTIMATE

Q2 earnings generally were good, especially as Berkshire Hathaway's massive $66.9 billion unrealized investment loss skewed the overall S&P 500 EPS number sharply lower by $4.74 and it is likely to skew it higher in Q3. Corporate outlooks generally were subdued and stock prices sometimes reacted negatively, but earnings historically have grown over time, even as analysts are often too rosy in their estimates.

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.46	$239.03
9/30/2023	$60.56	$233.98
6/30/2023	$59.13	$228.66
3/31/2023	$56.88	$216.40
12/31/2022	$57.41	$208.88
9/30/2022	$55.24	$208.20
6/30/2022	$46.87	$204.98
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 9.21.22

…and we continue to believe that stocks, in general, are attractively priced, despite the spike in interest rates,…

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 still like today's rich earnings yield (5.52% vs. 3.68% 10-Year), despite the jump in interest rates.

…while we like the inexpensive valuations and generous dividend yields associated with our broadly diversified portfolios of what we believe to be undervalued stocks.

THE PRUDENT SPECULATOR

MANAGED ACCOUNT METRICS & BENCHMARKS

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	11.0	10.1	0.8	2.0	3.0
ValuePlus	11.4	10.4	1.1	2.1	2.6
Dividend Income	10.8	10.2	0.7	1.9	3.5
Focused Dividend Income	11.9	11.2	1.0	2.2	3.0
Focused ValuePlus	11.8	11.5	1.2	2.4	2.8
Small-Mid Dividend Value	9.4	8.7	0.5	1.4	3.4
Russell 3000	19.6	16.9	2.0	3.4	1.8
Russell 3000 Growth	27.9	22.8	3.0	8.9	1.1
Russell 3000 Value	15.0	13.3	1.5	2.1	2.5
Russell 1000	18.7	16.7	2.1	3.6	1.8
Russell 1000 Growth	26.2	22.6	3.3	9.2	1.1
Russell 1000 Value	14.4	13.1	1.6	2.2	2.5
S&P 500 Index	18.1	16.5	2.2	3.7	1.8
S&P 500 Growth Index	22.0	20.1	4.0	6.8	1.0
S&P 500 Value Index	15.5	14.1	1.6	2.6	2.5
S&P 500 Pure Value Index	9.5	8.8	0.6	1.3	2.9

As of 09.24.22. 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.

As always, we remain braced for additional downside, with the outcome of the Italian elections on Sunday and the continued strength of the U.S. dollar likely to lead to more selling when trading resumes today. Nevertheless, we will keep the faith that equities will continue to prove rewarding in the fullness of time, as has been the case following every other scary downturn.

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.

One of a handful of stocks to end last week in the green, shares of **Change Healthcare** (CHNG – $27.32) moved 7% higher on Tuesday when it received the apparent go-ahead to complete its long-delayed merger with Optum Insight, a division of UnitedHealth Group. Change said that the U.S. District Court for the District of Columbia issued an opinion and final appealable order denying the request made by the U.S. Department of Justice and the States of New York and Minnesota for the Court to enjoin UnitedHealth from acquiring the company.

A spin-off of McKesson Corp in early 2020, Change had entered an agreement to sell itself to UnitedHealth in January the following year. The deal (Change holders will receive $25.75 per share in cash) is set to close very soon, though it has been nearly two years from the initial agreement.

Our resolve was certainly tested throughout our holding period as shares steadily declined while the market rallied throughout much of 2021. But since the turn of 2022, CHNG has reversed course to outpace the broad equity indexes over our holding period. Sweetening the buyout arrangement (and the reason the stock is trading above the deal price) is a $2.00 per CHNG share dividend payable the first business day following the closing of the merger.

For the time being, we plan to hold our Change shares for the completion of the transaction.

With market participants seemingly looking for any excuse to be pessimistic, shares of **General Motors** (GM – $35.48) skidded 11% last week in large part due to rival Ford warning that unavailability of some parts would affect that automaker's Q3 earnings. Ford didn't specify which parts were missing, but its full-year guidance remained unchanged, implying that it would make up ground the following quarter.

For its part, all signs continue to point toward Electric Vehicles for GM, even as progress at times has seemingly lagged competitors, emboldening skeptics.

But the company will launch the electric model of its signature Silverado pickup in early 2023, along with a Chevrolet Blazer EV and Equinox EV later in the year. Of course, tight supply chains have also plagued the Detroit-based automaker and worries about recession and the health of the consumer remain headwinds.

Still, CEO Mary Barra said at a recent conference that GM is "on track to hit our goal of having 1 million EV units by 2025 in North America, and in China," where she expects the company to generate about $50 billion in revenue and includes having an all-electric product for its light-duty offering by 2035. The company also announced a major partnership last week with rental car company Hertz, which plans to order up to 175,000 of GM's electric vehicles over the next 5 years across multiple GM brands and categories.

Nearly cut in half year-to-date, we find shares very cheap trading for just 5 times EPS estimates expected over the next few years, which have been revised downward in recent months. And, while modest, the automaker resumed its dividend after an 18-month hiatus to go along with a $5 billion share repurchase authorization (almost 10% of the market cap). The dividend yield is 1.0% and our Target Price for GM is $68.

Many seemingly found President Joe Biden's comment from a recent *60 Minutes* interview that "the pandemic is over" as reason to dump shares of **Moderna** (MRNA – $123.64), even as he attempted to clarify the remark, saying that the pandemic is "not where it was."

Of course, just five million individuals have received the new updated (bivalent) booster designed to target the omicron COVID variant, which currently causes most cases of the virus, versus the 171 doses ordered by the government for the fall.

Moderna has had difficulty rolling its bivalent booster out to the market, having been plagued by a manufacturing problem with one of its contract manufacturers. But we suspect some might be hesitant to get flu and COVID jabs at the same time out of caution about the sometimes-harsh reaction to the latter, and many may prefer getting the jab closer to the holidays and colder weather, when case counts are expected to pick up.

With 356 individuals continuing to die from the virus in the U.S. each day according to the CDC, it seems to us that plenty of demand still exists globally for COVID vaccines (particularly among high-risk groups of individuals), with the U.S. representing just a third of Moderna's revenue in 2021. Nevertheless, we acknowledge that Moderna lacks the size and distribution capabilities possessed by several of its peers.

The challenges in producing revolutionary vaccines are numerous, and are compounded by the dramatic reduction of revenue anticipated from the firm's COVID-19 vaccine in the coming years, even as sales from Q2 came in 19% above Wall Street consensus estimates. Should revenue continue to surprise to the upside, we'll be looking for management to put a big chunk of the $3 billion approved by the board for share repurchases to work.

Aside from COVID, Moderna also has therapies for three different diseases in phase 3 trials at present (RSV, influenza & CMV), each of which are potentially $1 billion sales opportunities. Shares trade modestly above the low from mid-June and we continue to appreciate the $18 billion of net cash and investments on the balance sheet at the end of June. Our Target Price for MRNA is $258.

Semiconductor giant **Qualcomm** (QCOM – $121.19) hosted its September 2022 *Investor Day* in New York, which was focused on the company's Automotive segment. CEO Christian Amon said, "We're very uniquely positioned. We're very different than many of our peers. The reality is every day that goes by, our IP and portfolio is becoming more relevant. I think that's what is going to give us the right to win, and it's going to be the foundation of this great business we're building for the company for the long term. So with that, I will start talking about really the new Qualcomm… It's really about creating a world when everything is connected beyond phones, and it's really about everyone and everything to be 100% connected to the cloud and intelligent. I think that's our vision. And our role in this vision is very simple. That's the elevator pitch in the company. We are the company that are going to bring data processing and intelligence to the edge, enabling cloud edge conversions with everything connected. That's our mission. That's the new Qualcomm, and that's what's really creating opportunity for growth as we see a number of new end markets, including automotive, for our technology road map in markets that are growing in many cases at double-digit rates."

Qualcomm estimates the addressable market is worth $700 billion within the next decade, with opportunities in Auto and Internet of Things adding to its product suite in the mobile market. The company expects its Snapdragon family of processors will power its "digital chassis," which is a combination of a digital cockpit, car-to-cloud connectivity and autonomy (self-driving, presumably) engine. Qualcomm's car-related projects are long-term in nature, so the announcements did little to change the trajectory of the short-term-oriented stock price. We suspect that the momentum will once again be in QCOM's favor once there are some tangible successes coming from the opportunity. Our Target Price stands at $218, and we like that QCOM trades for less than 10 times NTM earnings while yielding 2.5%.

FedEx's (FDX – $149.33) fiscal Q1 2023 analyst call did little to spark enthusiasm amongst investors after the company's terrible print the week before sent the stock plunging more than 20%. CEO Raj Subramaniam said of the company's efforts to trim costs, "The final components of our expected fiscal '23 savings will be from overhead expenses as we right-size our overall cost structure. These actions include our plans to close nearly 140 FedEx office locations and at least 5 corporate office facilities. Additionally, FedEx Services has stopped all noncritical projects. In total, our overhead reduction actions, including FedEx services, will contribute $350 million to $500 million. We realized nearly $300 million in cost savings from these actions in Q1 and expect approximately another $700 million in Q2, with the remainder of the fiscal '23 savings realized during the second half of the year."

He continued, "The second part of our cost plan is focused on permanent reductions, and we have launched DRIVE, a program supporting our Deliver Today, Innovate for Tomorrow strategy introduced in June. DRIVE is how we execute on that strategy. Our team has already started implementing cost reductions under this program, and this will ultimately enable Network 2.0, the long-term end-to-end trend optimization of our network. Sriram Krishnasamy, our newly appointed Chief Transformation Officer, will facilitate DRIVE and continue reporting directly to me. In total, we expect to take out an additional $4 billion in costs related to DRIVE by fiscal year 2025. To be clear, these are incremental to the fiscal '23 savings I outlined."

The company's cost-cutting plan was fairly unspecific (and therefore was met with skepticism by analysts), with some of the near-term changes outlined in more detail than the huge $4 billion in potential savings by 2025. Cost cuts can only help so much, though, and a recovery in shipment volume is what FDX needs to return to earnings growth mode. Analysts now project FDX will earn about $14.50 this year, compared with $20.61 in 2022, with earnings again eclipsing the high-water mark by 2025. It's certainly not easy to look past FDX's 40% loss this year, but the company has weathered a variety of economic storms since it first started hauling packages in 1971. This time always feels different, but we don't see reasons that indicate a recession in the U.S. and/or Europe would serve FDX any sort of death knell.

Though we have plenty of Industrial stock exposure in our broadly diversified portfolios, our Investment Team is considering bringing FDX back up to a normal weight for those that own as our Target Price now resides at $330. The stock trades for less than 10 times the depressed EPS outlook and the dividend yield is 3.1%.