Market Commentary Monday, October 10, 2022

October 10, 2022

EXECUTIVE SUMMARY

Newsletter Trades – 5 Buys
Market Week – Lousy Last Three Days, But Sensational First Two
Bad News is Good News – Weak Econ Stats Send Stocks Up
Good News is Bad News – Favorable Econ Numbers Send Stocks Down
Q3 GDP – Growth Estimate Rises; Not a Bad Thing for Corporate Profits
Valuations – Stocks Still Attractively Priced
Volatility – Short-Term Ups and Downs are Normal but Equities Have Proved Rewarding Over the Long Haul
Stock News – Updates on AYI, INTC, MU, CVS, HAS & GM

Market Review

As discussed in the October edition of *The Prudent Speculator*…

We bought 55 shares of **Hasbro** (HAS – $68.97) at $68.34 for Buckingham Portfolio on Thursday, October 6.

Also on October 6, we added the following to our hypothetical portfolios:

Millennium Portfolio
88 **American Tower** (AMT – $194.63) at $213.62

PruFolio
620 **Greenbrier** (GBX – $24.92) at $26.52
133 **Medtronic** (MDT – $82.42) at $84.75
29 **TotalEnergies** (TTE – $50.91) at $50.08

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You know that the equity markets are volatile when the Dow Jones Industrial Average closes on Friday with a 630-point plunge, yet still advances 571 points for the full trading week.

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 good kind of volatility happening last week. Of course, the Nasdaq Composite index is still down 31.5% and the U.S. Aggregate Bond index is off 14.8% 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	MARKET OF STOCKS	2.03	-18.08	-13.99	14.89	7.65	65.86	17.83	43.50	Dow Jones Industrial Average	DJITR Index
1.01	-10.21		2.48	-17.97	-14.31	16.27	10.94	67.27	16.28	27.26	New York Stock Exchange Composite	NYA Index
-39.18	-20.81		0.75	-31.48	-26.73	-0.90	-4.83	58.39	37.34	69.53	Nasdaq Composite Index	CCMP Index
-22.43	-9.23		2.32	-27.64	-28.69	-4.29	-9.32	54.89	13.27	20.07	Russell 2000 Growth	RU20GRTR Index
22.83	14.02		2.22	-19.37	-18.07	33.16	28.37	94.36	19.62	16.67	Russell 2000 Value	RU20VATR Index
-3.02	2.49		2.27	-23.40	-23.36	13.17	8.11	75.06	17.95	20.20	Russell 2000	RU20INTR Index
-11.75	-20.15		2.83	-29.51	-28.57	-5.54	-9.01	56.66	17.30	46.25	Russell Midcap Growth Index Total Return	RUMCGRTR Index
19.18	2.33		2.33	-18.50	-13.95	24.79	20.42	90.75	19.39	27.93	Russell Midcap Value Index Total Return	RUMCVATR Index
8.25	-5.62		2.51	-22.37	-19.24	13.39	9.35	79.70	21.24	38.70	Russell Midcap Index Total Return	RUMCINTR Index
-22.42	-19.63		1.26	-29.70	-23.40	2.71	-2.17	64.80	36.17	72.59	Russell 3000 Growth	RU30GRTR Index
8.04	-4.33		2.21	-16.16	-12.11	24.49	19.53	74.01	18.45	29.68	Russell 3000 Value	RU30VATR Index
-7.46	-11.46		1.73	-23.32	-17.98	12.94	7.99	70.39	28.66	51.85	Russell 3000	RU30INTR Index
9.64	-0.39		2.35	-18.81	-13.58	25.43	20.64	89.66	30.52	49.08	S&P 500 Equal Weighted	SPXEWTR Index
-9.10	-11.89		1.56	-22.68	-15.99	14.65	9.73	69.35	30.13	56.02	S&P 500	SPXT Index
-22.08	-12.73		0.93	-29.76	-21.83	5.87	1.34	65.68	35.34	71.03	S&P 500 Growth	SPTRSGX Index
6.08	-11.71		2.15	-14.77	-9.98	24.36	18.98	69.11	20.52	36.22	S&P 500 Value	SPTRSVX Index
3.18	1.57		-0.39	-20.21	-20.63	-21.54	-21.35	-14.50	-17.13	-10.97	Bloomberg Barclays Global-Aggregate Bond	LEGATRUU Index
11.63	8.44		-0.25	-14.83	-14.58	-15.20	-15.30	-10.77	-10.20	-1.44	Bloomberg Barclays U.S. Aggregate Bond	LBUSTRUU Index

As of 10.07.22. Source Kovitz using data from Bloomberg

Interestingly, aside from an oversold market following September's big plunge, an about face on the controversial U.K. tax cut and significant investor pessimism, the latter often a positive from a contrarian perspective,…

THE PRUDENT SPECULATOR

MAJOR AAII CONTRARIAN BUY SIGNAL: BULL-BEAR SPREAD = -30.9%

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 = 7.35											
BELOW	-54.0	7.3	917	0.23%	0.19%	1.13%	0.99%	3.34%	2.94%	6.55%	5.78%
ABOVE	7.4	62.9	917	0.17%	0.15%	0.54%	0.46%	2.01%	1.76%	4.68%	4.20%
Ten Groupings of 1834 Data Points											
1	-54.0	-16.3	184	0.43%	0.37%	2.01%	1.77%	4.63%	4.07%	8.80%	7.59%
2	-16.2	-8.3	183	0.29%	0.25%	0.85%	0.72%	3.54%	3.19%	6.46%	5.68%
3	-8.3	-2.0	191	0.31%	0.28%	1.28%	1.18%	3.47%	3.05%	7.48%	6.77%
4	-2.0	2.9	176	0.06%	0.03%	0.92%	0.83%	2.47%	2.10%	5.28%	4.73%
5	2.9	7.3	183	0.06%	0.04%	0.54%	0.44%	2.53%	2.26%	4.62%	4.07%
6	7.4	11.9	183	0.17%	0.15%	0.68%	0.60%	1.98%	1.74%	4.96%	4.51%
7	11.9	16.1	184	0.16%	0.14%	0.50%	0.37%	2.48%	2.22%	5.31%	4.80%
8	16.1	22.0	199	0.17%	0.15%	0.80%	0.73%	2.05%	1.79%	5.86%	5.43%
9	22.0	29.0	167	0.12%	0.10%	0.41%	0.33%	2.03%	1.75%	4.59%	4.01%
10	29.0	62.9	184	0.24%	0.22%	0.31%	0.23%	1.50%	1.28%	2.59%	2.15%

From 07.31.87 through 10.06.22. 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 23.9% and the number of Bears residing at 54.8% is a major positive. The minus 30.9% Bull-Bear spread is among the lowest ever and is in the most favorable (i.e. highest future returns) 1st decile of the weekly figures going back to 1987.

…the big rebound last week was due in large part to a weaker-than-expected reading on the health of the factory sector,…

THE PRUDENT SPECULATOR

ISM MANUFACTURING FALLS: 0.8% ANNUALIZED GDP GROWTH SUGGESTED

The latest data point on the health of the manufacturing sector came in below expectations at 50.9 in September, down from August's tally of 52.8 to a level below average for the 30-plus-year history of the gauge. The Institute for Supply Management stated, "The past relationship between the Manufacturing PMI and the overall economy... corresponds to a 0.8% increase in real gross domestic product (GDP) on an annualized basis."

…and a big decline in the number of job openings.

THE PRUDENT SPECULATOR

BIG DROP IN JOB OPENINGS BUT LOW UNEMPLOYMENT FILINGS

With the "Great Resignation" continuing as 4.2 million people quit their jobs in August, the labor market remains healthy, though job openings shrank considerably to 10.1 million, even as the number of positions being filled rose slightly in the month. Looking at more current data, first-time filings for jobless benefits rose by 29,000 to 219,000 in the week ending October 1, a figure that still suggests a slowing U.S. economy is not yet triggering wide layoffs.

Perversely, bad news economically speaking was good news in the short run for stocks as interest rates fell early in the week on hopes that the Federal Reserve might not be as aggressive in its plans for further rate hikes. Of course, by the end of the week, the rally in U.S. Treasury prices faded, so much so that yields hit their highest end-of-week level in more than a dozen years,…

THE PRUDENT SPECULATOR

BENCHMARK TREASURY YIELD RISES AGAIN ON HAWKISH FED

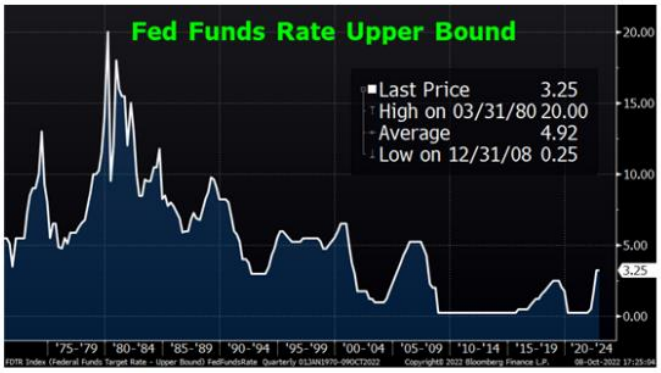
Given the tough talk on inflation from Jerome H. Powell & Co. as well as the continuation of solid economic stats, government bond market players continued to dump U.S. Treasuries last week, sending the yield on the benchmark 10-year bond up 5 more basis points.

…and expectations for additional Fed hawkishness rose modestly,…

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 became a bit more hawkish last week, with a projected 4.35% year-end Fed Funds rate and a 4.66% estimated peak for March 2023, with a cut coming in May 2023.



…as data on the health of the important service sector exceeded forecasts,…

THE PRUDENT SPECULATOR

ISM NON-MANUFACTURING EDGES DOWN: 2.4% ANNUALIZED GDP GROWTH

The latest read on the health of the service sector inched lower to 56.7 in September, down slightly from August's tally of 56.9. The figure was better than expected and above average, suggesting a still-healthy non-manufacturing economy. The Institute for Supply Management stated, "The past relationship between the Services PMI and the overall economy...corresponds to a 2.4% increase in real gross domestic product (GDP) on an annualized basis."

…and the critical Employment Situation Report showed more than 250,000 news jobs created,…

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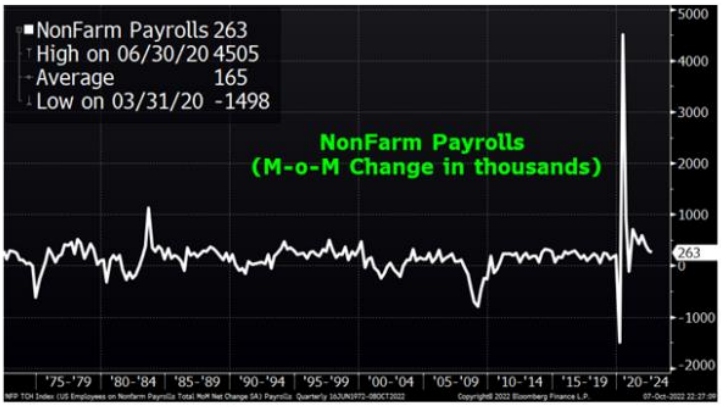
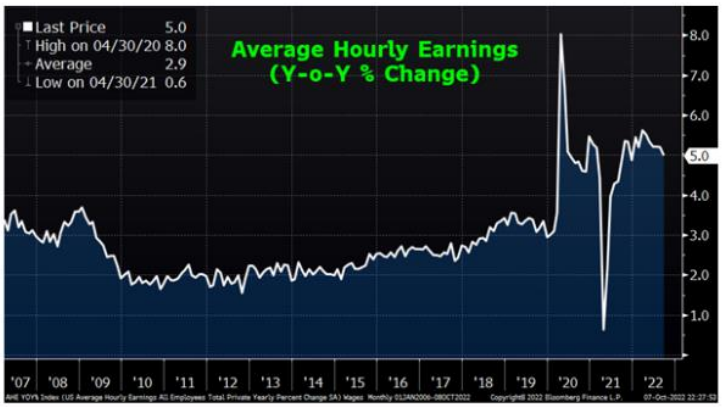
STILL HEALTHY JOBS PICTURE





Economists were looking for a gain of 275,000 payrolls, so the increase of 263,000 in September was below expectations, but the July and August tallies were revised up by a combined 11,000 jobs. Notable job gains were in leisure and hospitality, professional and business services and health care. With strong demand for labor, wage gains continued on a year-over-year basis, rising 5.0% in September as employers struggled to fill positions with qualified applicants.

…with the unemployment rate again hitting a low not seen in over 50 years.

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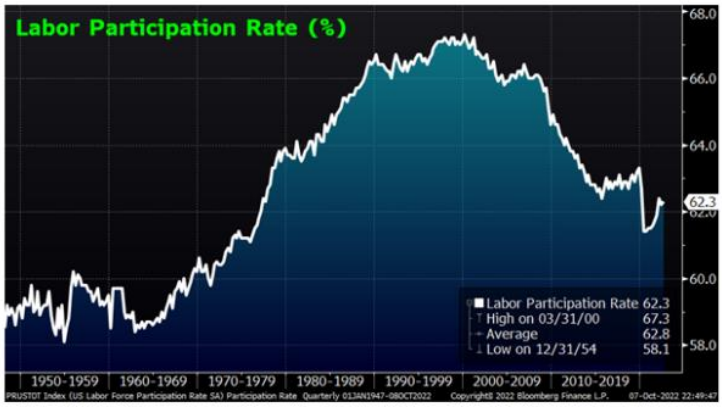
53-YEAR LOW JOBLESS RATE & NEAR PANDEMIC HIGH PARTICIPATION RATE



Though fewer jobs were created than expected last month, the unemployment rate for September fell to 3.5%, down from 3.7% in August, as the numbers of unemployed folks dropped to 5.8 million versus 6.0 million in August. The jobless percentage was tied for the lowest since 1969. The so-called participation rate inched down 0.1 points in September to 62.3%, near the highest level since the beginning of the pandemic.

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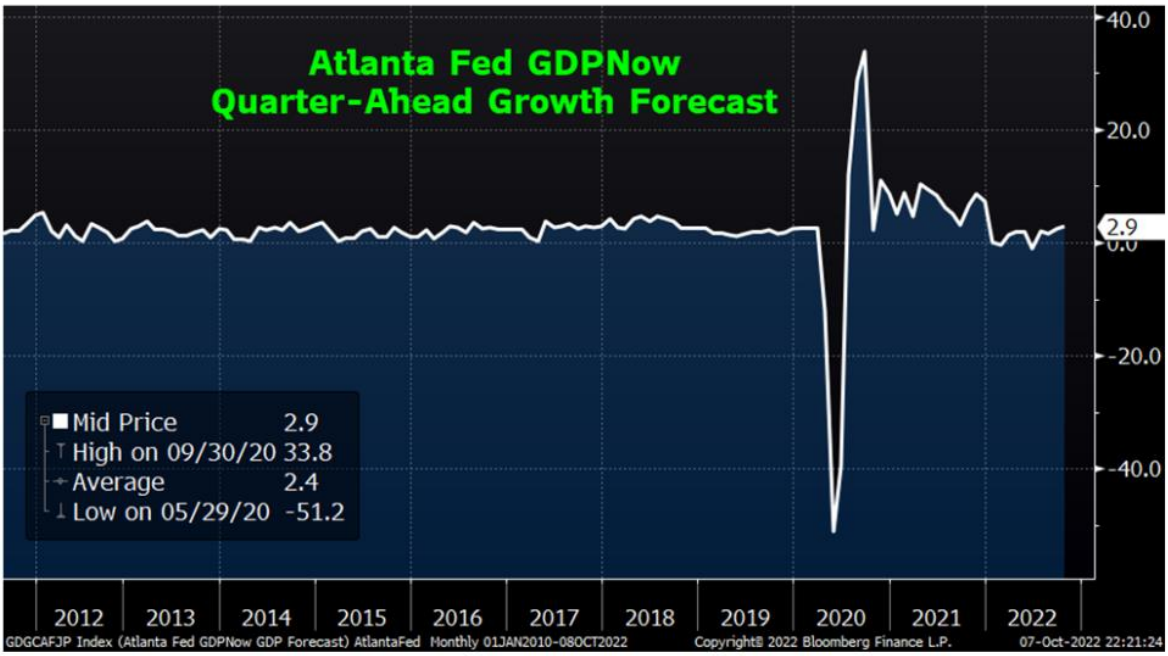
Given that we have long believed that if a business does well its stock will eventually follow, we aren't unhappy that the economy is managing to hold up,…

THE PRUDENT SPECULATOR

Q3 U.S. REAL GDP GROWTH PROJECTION JUMPS TO 2.4%

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 October 7 stood at 2.9%.



…especially with so many worried that a recession is imminent,…

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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.

…as corporate profits should remain reasonably healthy,…

THE PRUDENT SPECULATOR

Q3 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. 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.

S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2023	$62.40	$238.29
9/30/2023	$60.37	$232.98
6/30/2023	$58.85	$227.41
3/31/2023	$56.67	$215.43
12/31/2022	$57.09	$208.12
9/30/2022	$54.80	$207.76
ACTUAL		
6/30/2022	$46.87	$204.98
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 10.06.22

…continuing to support our argument that stocks in general are attractively valued,…

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 (5.61% vs. 3.88% 10-Year), despite the jump in interest rates.

…with our broadly diversified portfolios of what we believe to be undervalued stocks especially appealing.

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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	10.9	10.3	0.8	2.0	3.1
ValuePlus	11.5	10.7	1.1	2.1	2.6
Dividend Income	10.7	10.1	0.7	1.9	3.6
Focused Dividend Income	11.7	11.1	1.0	2.2	3.0
Focused ValuePlus	11.7	11.4	1.2	2.3	2.8
Small-Mid Dividend Value	9.5	8.9	0.5	1.4	3.3
Russell 3000	19.4	16.6	2.0	3.4	1.8
Russell 3000 Growth	27.5	22.3	3.0	8.8	1.1
Russell 3000 Value	14.9	13.2	1.5	2.1	2.5
Russell 1000	18.4	16.4	2.1	3.6	1.8
Russell 1000 Growth	25.7	22.1	3.3	9.1	1.1
Russell 1000 Value	14.3	13.0	1.5	2.2	2.5
S&P 500 Index	17.8	16.2	2.2	3.7	1.8
S&P 500 Growth Index	21.5	19.6	3.9	6.6	1.0
S&P 500 Value Index	15.4	13.9	1.6	2.6	2.5
S&P 500 Pure Value Index	9.6	8.9	0.6	1.3	2.9

As of 10.08.22. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

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To be sure, we know that there are plenty of disconcerting factors to worry about in the near-term, as always seems to be the case.

THE PRUDENT SPECULATOR

KEEP CALM AND CARRY ON

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%	41832%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	24164%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	21707%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	8442%
Suez Canal Crisis	10/30/1956	10/31/1956	46.37	45.58	-2%	-10%	26%	51%	7885%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	9237%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	6704%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	5129%
MLK Assassination	4/3/1968	4/5/1968	93.47	93.29	0%	8%	8%	16%	3801%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	4725%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	3849%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	5100%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	3359%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	3606%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	2947%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	2148%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	1387%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	1519%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	1051%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	867%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	784%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	721%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	696%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	620%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	315%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	279%
Clinton Impeachment	12/19/1998	2/12/1999	1,188.03	1,230.13	4%	13%	-10%	-6%	196%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	171%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	277%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	297%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	234%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	204%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	438%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-7%**	**18%**	**39%**	**66%**	**4991%**

As of 10.07.22. Source: Kovitz using Bloomberg and Ned Davis Research Events & Reaction Dates

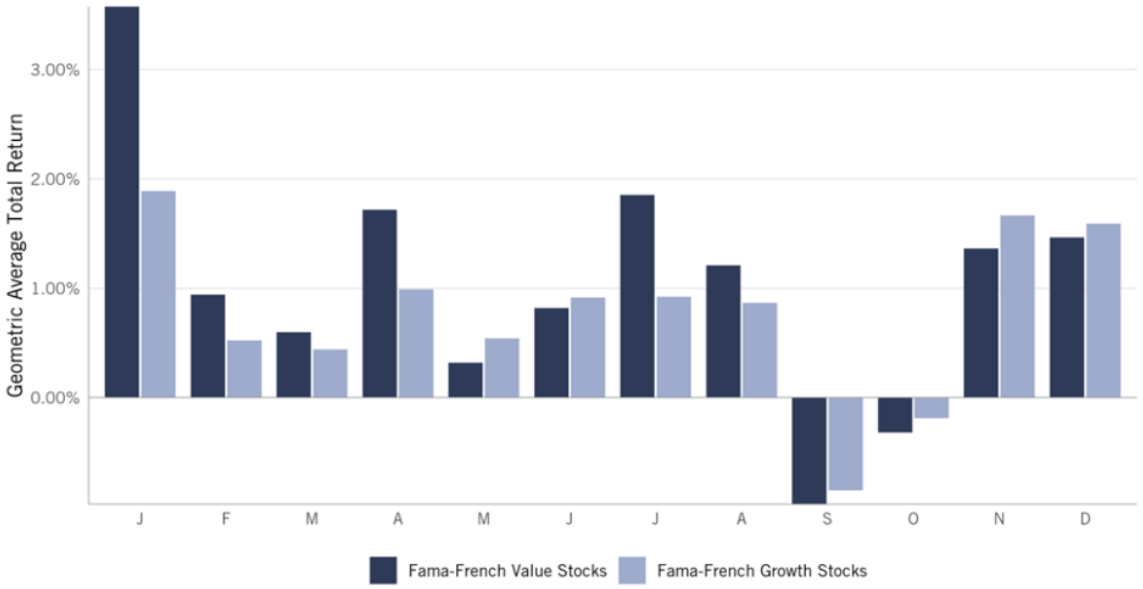
Certainly, we do not wish to downplay the significant losses suffered this year, while we respect that the war in Ukraine, supply-chain issues, inflation, high interest rates, Federal Reserve tightening and a slowing economy remain sizable headwinds. Current headlines are troubling, but there have been more than a few frightening events throughout history, yet stocks have still managed to move higher in the fullness of time.

In addition to the Fed, interest rates, the economy and corporate profits, we realize that worries these days include developments in the War in Ukraine and on the geopolitical stage, so we suspect the selling pressure in the near-term will remain high. We also respect that October historically is the second worst month of the year on average,…

THE PRUDENT SPECULATOR

OCTOBER STATISTICALLY THE SECOND 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 we continue to think that a significant amount of bad news is in stock prices today, given the magnitude of the setbacks this year…

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	9/30/2022	-16.71%	BEAR	6/16/2022	8/16/2021	17.41%	BULL
Average Drop		**-18.23%**		**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 off 16.71% from its August high-water mark at the end of September. 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 in the red.

…and history shows that despite significant ups and downs through the years, equities have proved rewarding in the long term,…

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	313	0.3	9/30/2022	10/4/2022

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%	-28.0%	185	46	2.0	8/16/2022	9/30/2022
-12.5%	-22.7%	137	73	1.3	8/16/2022	9/30/2022
-10.0%	-19.6%	101	100	0.9	8/16/2022	9/30/2022
-7.5%	-15.5%	65	159	0.6	8/16/2022	9/30/2022
-5.0%	-10.9%	36	312	0.3	9/12/2022	9/30/2022

From 02.20.28 through 10.04.22. 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	13.1%	25.9%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.0%
Non-Dividend Paying Stocks	8.9%	29.3%
Long-Term Gov't Bonds	5.2%	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 08.31.22. 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

…for those who remember that the secret to success in stocks is not to get scared out of them.

THE PRUDENT SPECULATOR

THE ONLY PROBLEM WITH MARKET TIMING IS GETTING THE TIMING RIGHT

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

Individual Investor Returns vs. Broad Benchmarks

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

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

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.

Acuity Brands (AYI – $157.21) posted EPS of $3.95 on $1.11 billion of revenue in fiscal Q4 2022, both figures coming in ahead of consensus expectations. Profit grew 12% and 21% over fiscal Q3 2022 and Q4 2021, respectively. CFO Karen Holcom said, "Operating profit was impacted by 3 key factors: first, higher cost of inventory; second, increased cost for transportation to deliver our products to the customer; and finally, higher commission rates for certain project business." Acuity continues to drive its product vitality strategy which endeavors to introduce new products and improvements between 20% to 30% of its existing product portfolio per year.

CEO Neil Ashe reflected on the past 12 months, "We've had a good year. We have successfully repositioned the company at the intersection of sustainability and technology. Our businesses developed a technology that saves our customers' energy and reduces their carbon emissions. We are positioned for long-term growth by taking advantage of two of the most important megatrends, minimizing the impacts of climate change and maximizing the impacts of technology…We've changed how the company works with the introduction of our better, smarter, faster operating system. Better, smarter, faster is the combination of processes, tools and ways of working that span from strategy to people, to operating rhythms, to problem solving. It is unique to our organization, and allows us to drive strategic alignment, manage, change and deliver results."

He added, "Our organization is clear on how we create value. We create value by growing net sales, turning those sales into cash and not growing the balance sheet as fast. We have overhauled our total rewards framework so that everyone in the organization is aligned with this."

Ms. Holcom expects the maker of lighting products to earn between $13.00 and $14.00 per share next year, with higher inventory costs continuing to weigh on margins in the first half the year. Management has been busy repurchasing shares over the past couple of years, reducing the share count by about 20% since May 2020, but this pace will likely take a back seat to business growth in the new fiscal year.

We continue to think Acuity is sufficiently capitalized to weather the obstacles facing most businesses today and we are patient in waiting for the company to realize the multiple channels for growth on the horizon, particularly within its Intelligent Spaces segment. Shares trade for less than 12 times the NTM EPS estimate. Our Target Price for AYI has been boosted to $249.

Semiconductor stocks had another rough week, with the preliminary earnings from **Intel** (INTC – $25.72) competitor Advanced Micro Devices (AMD) missing estimates by $1 billion. Once a distant second place in the processor world behind #1 Intel, AMD has been eating Intel's lunch over the past few years. Intel still makes processors that outperform AMD's offerings, but that gap has narrowed substantially, and, in some cases, AMD chips outperform. Neither company is immune to broad PC trends, and AMD's report rehashed concerns of a slowing market for personal computer chips, as well as inventory build-up, pricing challenges and manufacturing bottlenecks.

Adding to the disappointing news, *Reuters* reported that South Korea's Samsung Electronics "likely [had a] 32% drop in quarterly operating earnings on Friday as demand for electronic devices, and the memory chips that power them, shrank due to an economic downturn. The world's largest memory-chip and smartphone maker estimated its profit fell to 10.8 trillion won ($7.67 billion) in July-September – its first year-on-year decline in nearly three years – from 15.8 trillion won a year earlier."

The carnage wasn't undone by **Micron's** (MU – $52.91) bullish investments in U.S. manufacturing. The memory maker said via press release, "[Micron] plans to build the largest semiconductor fabrication facility in the history of the United States. The new megafab will

increase domestic supply of leading-edge memory and create nearly 50,000 New York jobs, including approximately 9,000 high paying Micron jobs. Micron intends to invest up to $100 billion over the next 20-plus years to construct a new megafab in Clay, New York, with the first phase investment of $20 billion planned by the end of this decade."

CEO Sanjay Mehrotra added, "This historic leading-edge memory megafab in Central New York will deliver benefits beyond the semiconductor industry by strengthening U.S. technology leadership as well as economic and national security, driving American innovation and competitiveness for decades to come."

There's no question that chipmakers have encountered a brutal year. The Philadelphia Stock Exchange Semiconductor (SOX) Index, which tracks semiconductor companies, is down 40% in 2022. We have maintained that the memory and data storage businesses are cyclical and tides can turn quickly. For those willing to ride out the storm, we think the upside is substantial and the long-term outlook for the industries is very positive, especially with U.S. government support to move manufacturing back to the States. The past is not always prologue, but the SOX Index has outperformed the S&P 500 index by an annualized 7.1%, 7.2% and 10.4% over the last 3-, 5- and 10-year periods. Our Target Price for INTC is $52 and for MU is $101.

Shares of **CVS Health** (CVS – $88.25) sank over 10% on Friday on news that its largest Medicare Advantage plan lost a star in the annual rating of all Medicare Advantage Plans available with a Part D prescription offering. The ratings range from one to five and are designed to measure quality of care and patient satisfaction, with a score of one meaning poor and five meaning exceptional. The bump is expected to hit one of CVS-owned Aetna's most popular plans the most given that it represents 59% of Aetna's Medicare Advantage membership.

CVS said the drop in score ran counter to its own internal survey, arguing that the Medicare survey reached less than 1,000 members. Of course, CVS wasn't the only provider to drop in score, as the government made some adjustments last year to its system to account for the COVID-19 pandemic that resulted in a broad increase of scores across providers from the prior year. The Center for Medicare & Medicaid Services, which performs the survey, normalized the criteria for the latest iteration, bringing the number of plans earning 4 stars or higher within reach of the historical range. For example, plans with a 4-star rating or higher were 49% of all available plans two years ago. The figure grew to 70% last year with the relaxation of criteria and for 2023 the number is 51%.

CVS will miss out on bonus funds for not meeting the 4-star hurdle ($11.6 billion was doled out in 2021), but it will likely continue to benefit from a rising number of Medicare enrollees over time. Medicare Advantage enrollment also continues to climb, reaching an estimated 48% of total Medicare beneficiaries this year, up from 27% a decade ago. And over a third of CVS/Aetna plans ranked at least 4 stars or better. Management says it still expects to reach double-digit EPS growth by 2024.

The competitive landscape isn't getting any less challenging and there seemingly is always a regulatory cloud in the operational sky. Nevertheless, we think there is still plenty of runway ahead to improve access to care using CVS's integrated health care delivery model, which the

company continues to build through the acquisition of Signify Health last month, with an announcement last week that it also is in exclusive talks to purchase Cano Health.

The latest plunge makes shares even more attractive in our view than they already were, trading for a P/E multiple of under 10 times the consensus EPS estimate for 2023. The dividend is 2.5% and our Target Price is now $137.

Hasbro (HAS – $68.97) held an *Investor Day* last week in which relatively new CEO Chris Cocks laid out the toys and entertainment concern's strategy for the next five years. Shares rallied in early trading the day of the event before shortly reversing course as the company lowered its revenue forecast for 2022, but the stock held on to a 2.3% gain overall on the week. Full-year revenue is now expected to come in flat to slightly lower than last year on a constant currency basis.

As the saying goes, the proof will be in the pudding, but management expects some new priorities—leaning into its biggest gaming brands to generate additional revenue, investing to build out a brand insights platform for data-based decision-making, and rejuvenating its direct-to-consumer and digital effort—to meet a list of financial objectives by 2027.

A cost saving's program called Blueprint 2.0 has been drawn up with the intention of delivering $250 million to $300 million in benefits annually and an increased rigor in approving item development to weed out inefficient products that don't meet a certain ROI hurdle. Additionally, management has targeted mid-single-digit compounded annual revenue growth through 2027, operating profit growth of 50% over the next three years (with a 20% margin by 2027), and operating cash flow in excess of $1 billion annually, accelerating over the period.

As we penned in the latest monthly edition of *The Prudent Speculator*, the past year has been a whirlwind for the company. Pressure from activist investors since the death of former CEO Brian Goldner has resulted in the retirement of two board members, and a series of COVID lockdowns in China, the company's largest supplier, has undoubtedly impacted results. Hasbro said it has considered the sale or restructuring of its entertainment business eOne, another of the activists' apparent goals, which it purchased right before the pandemic. Of course, it has already taken one step in that direction last year, having sold eOne's music business. Such moves are in a different direction from Hasbro's previous strategy of using an entertainment platform to promote its toy licenses but could potentially unlock shareholder value and offer a fresh start, allowing it to focus on its strengths in toy making and gaming. Down by a third in 2022, shares look cheap, trading for 14 times NTM EPS estimates and sporting a robust dividend yield of 4.1%. Our Target Price for HAS is now $118.

Shares of **General Motors** (GM – $33.62) leapt about 6% last Monday on an announcement that the company's Q3 sales rose 25% year-over-year to 555,580 vehicles. The automaker also said that it had planned to ramp production of both Chevrolet Bolt Electric and Electric Utility Vehicles from 44,000 this year this year to over 77,000 next year.

Of course, the stock gave up a good portion of the gain the following day when a Morgan Stanley analyst produced a sour note, voicing a preference for Ford Motor instead. The analyst

appeared to be grabbing at straws to justify the take, confessing that they had chosen to "completely remove GM cruise [and GM China]" from their valuation. Notably, the stocks of both automakers have moved in tandem of late; declining more than 40% year-to-date, with GM's NTM P/E ratio at a slight discount to Ford's.

We acknowledge that sell-side analysts are often playing a completely different game, given a much shorter time horizon and a requirement for action, even as they create opportunities that serve our goal of buying and owning shares of undervalued companies. We look forward to GM launching the electric model of its signature Silverado pickup in early 2023, along with a Chevrolet Blazer EV and Equinox EV later in the year. Yes, tight supply chains have made the production environment difficult, and fears of recession linger, though shares trade for a meager 5 times NTM earnings. Our Target Price for GM is $63.