

Market Commentary Monday, April 3, 2023

April 2, 2023

EXECUTIVE SUMMARY

Market Timing – DALBAR Data Shows Time in the Market the Way to Go

Week in Review – Sensational Rebound Despite Higher Rates, Slower Potential Growth & Greater Odds of Recession

Market History – Evidence Shows Higher Rates and Even Economic Contractions No Reason for Long-Term-Oriented Folks to Flee Stocks

Econ News – Decent Numbers; PCE Inflation Not as Bad as Feared

Patience – The Longer the Hold the Greater the Chance of Success

Earnings – Solid Growth This Year and Next Still the Forecast

Valuations – Still Liking the Metrics for our Portfolios

Sentiment – AAI Contrarian Buy Signal

Market of Stocks – Q1 TPS Winners & Losers

Volkswagen Swap – Out of VWAGY and Into VWAPY

Stock News – Update on MU

Market Review

Three decades of analytics from market data firm DALBAR confirms that market timing is hazardous to one's long-term wealth. After all, holders of stock funds, on average, have seen a 2.8% per annum drag on returns over the last 30 years and holders of bond-funds have been abysmal market timers, losing money in every time period studied!



SUMMARY RETURNS: DALBAR'S 2022 QAIB STUDY

Period	Average Equity Fund Investor	S&P 500 Index Return	Difference	Average Fixed Income Fund Investor	Bloomberg U.S. Aggregate Bond Index Return	Difference	Inflation (U.S. Consumer Price Index)
1 Year	-21.2%	-18.1%	-3.1%	-13.8%	-13.0%	-0.8%	6.5%
3 Years	4.0%	7.7%	-3.6%	-5.2%	-2.7%	-2.4%	4.9%
5 Years	5.2%	9.4%	-4.2%	-2.3%	0.0%	-2.3%	3.8%
10 Years	9.3%	12.6%	-3.2%	-1.3%	1.1%	-2.4%	2.6%
20 Years	9.0%	9.8%	-0.8%	-0.3%	3.1%	-3.4%	2.5%
30 Years	6.8%	9.7%	-2.8%	-0.1%	4.6%	-4.7%	2.5%

As of 12.31.2022. DALBAR Quantitative Analysis of Investor Behavior. SOURCE: DALBAR

Obviously, one week's equity market performance does not prove anything, but the big rally in which the Russell 3000 Value index rebounded more than 4% over the past five trading sessions illustrates why we like to say that the only problem with market timing is getting the timing right.



Plenty of big weekly gyrations along the way but the long-term trend in stocks is up.

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	4	1	7	12
Years Ending in 1	0	2	7	1	10
Years Ending in 2	0	2	0	5	7
Years Ending in 3	0	1	1	1	3
Years Ending in 4	0	0	0		0
Years Ending in 5	1	0	1		2
Years Ending in 6	0	0	1		1
Years Ending in 7	1	0	0		1
Years Ending in 8	1	6	0		7
Years Ending in 9	2	9	1		12
Totals	5	24	12	14	55

From 6.9.95 through 3.31.23. Weeks of Russell 3000 Value index price increases of greater than or equal to 4.01%. SOURCE: Kovitz using data from Bloomberg

	1990's	2000's	2010's	2020's	Totals
Years Ending in 0	0	1	3	7	11
Years Ending in 1	0	2	5	1	8
Years Ending in 2	0	3	1	5	9
Years Ending in 3	0	1	0	1	2
Years Ending in 4	0	0	0		0
Years Ending in 5	0	0	2		2
Years Ending in 6	0	0	1		1
Years Ending in 7	0	3	0		3
Years Ending in 8	3	10	5		18
Years Ending in 9	2	8	0		10
Totals	5	28	17	14	64

From 6.2.95 through 3.31.23. Weeks of Russell 3000 Value index price declines of greater than or equal to 4.01%. SOURCE: Kovitz using data from Bloomberg

LONG-TERM RETURNS

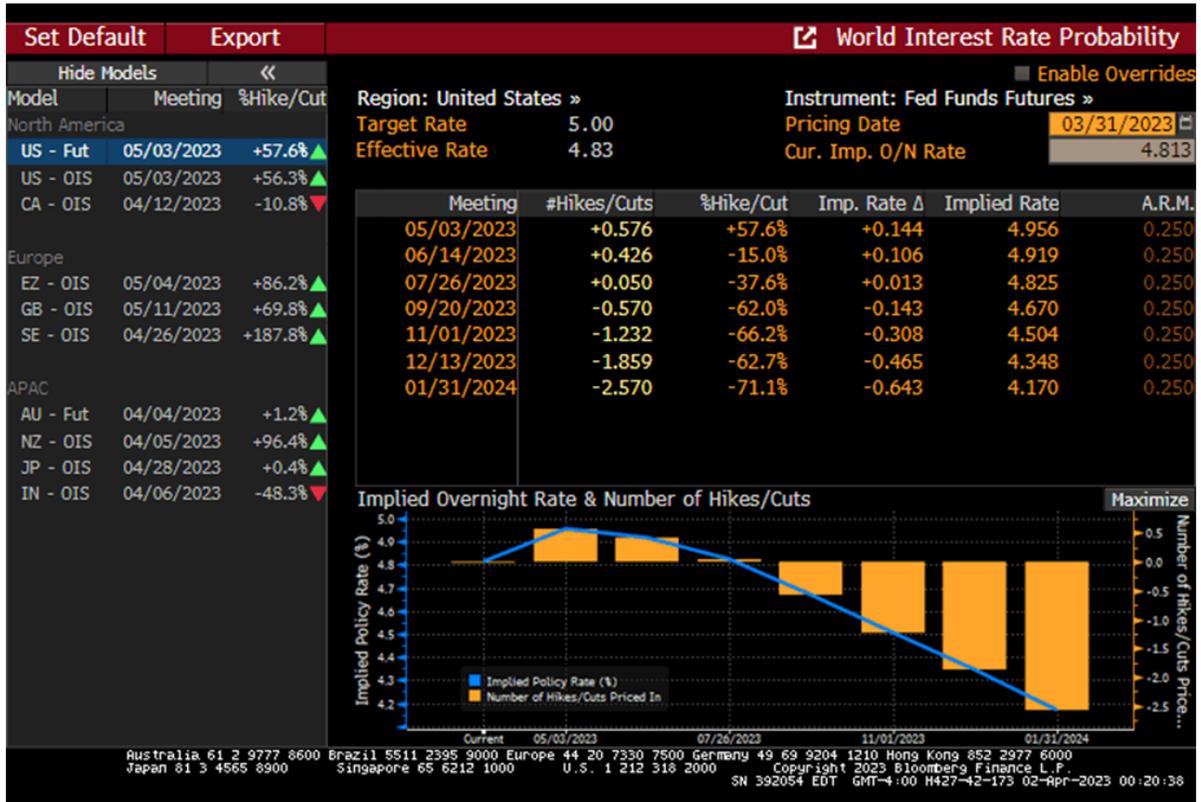
	Annualized Return	Standard Deviation
Value Stocks	14.1%	17.9%
Growth Stocks	10.9%	19.0%
Dividend Paying Stocks	12.3%	14.7%
Non-Dividend Paying Stocks	11.6%	22.4%
Large-Company Stocks	11.5%	15.2%
Small-Company Stocks	13.1%	20.4%
Long-Term Corporate Bonds	7.7%	10.1%
Long-Term Gov't Bonds	7.4%	11.2%
Intermediate Gov't Bonds	6.3%	5.3%
Treasury Bills	4.2%	1.0%
Inflation	3.6%	1.3%

From 03.31.77 through 01.31.23. 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 dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Small company stocks, via Ibbotson Associates, are the bottom twenty percent of the New York Stock Exchange. Large company stocks, via Ibbotson Associates, are represented by the S&P 500 index. 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

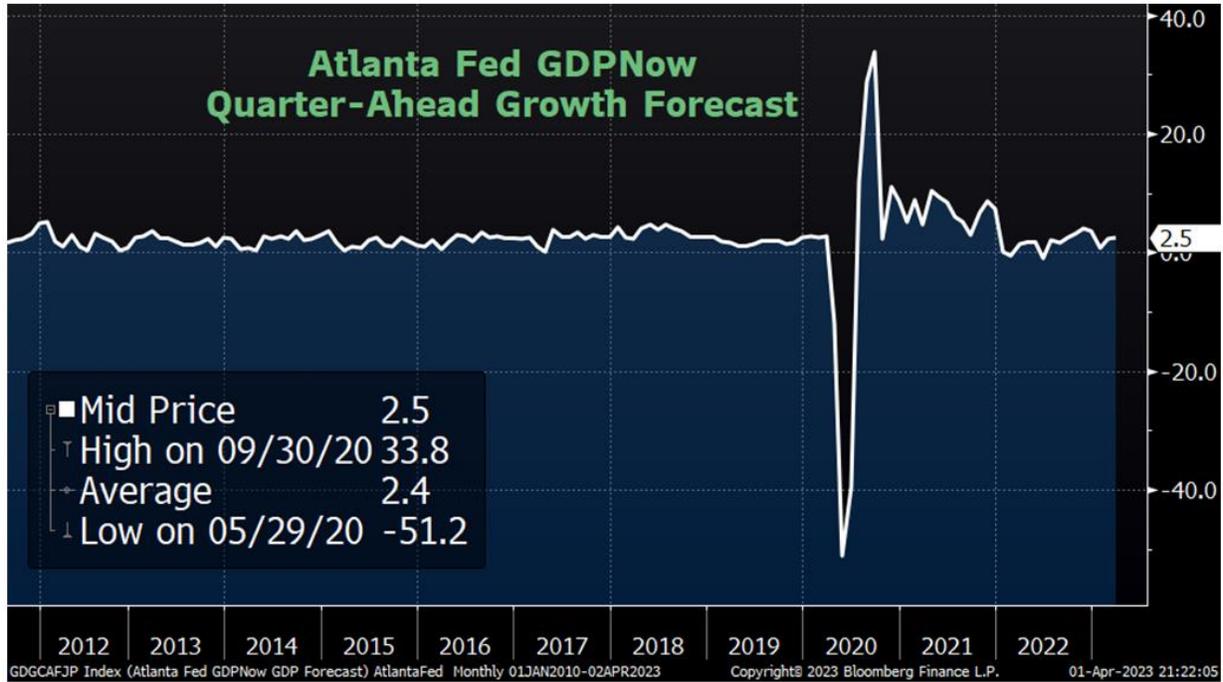
After all, interest rates rose last week, with the yield on the 10-Year U.S. Treasury climbing from 3.38% to 3.47%,...



...and market expectations for additional hikes in the Fed Funds rate moved up to a peak of 4.96% next month and a 4.35% year-end level, compared to 4.86% for the former and 3.91% for the latter at the end of the preceding week.



In addition, the latest estimate for inflation-adjusted Q1 U.S. GDP growth pulled back to 2.5%,...



...and the chance of recession rose to 65%, up from 60% a week ago.



In theory, each of the above might have proved a headwind for stock prices.

Of course, history shows that higher interest rates,...



Rising Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	18.2%	12.5%	11.6%	15.7%	0.9%	-1.1%	2.0%	3.6%
Geometric Average	14.0%	9.5%	9.5%	10.3%	0.8%	-1.2%	2.0%	3.6%
Median	18.2%	12.9%	14.3%	11.4%	1.1%	-0.3%	1.8%	3.1%
Max	126.6%	93.1%	69.8%	88.2%	14.6%	9.2%	9.7%	14.7%
Min	-54.0%	-42.2%	-47.4%	-50.9%	-8.1%	-14.9%	-5.1%	0.0%
Count	47	47	47	47	47	47	47	47

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

Falling Long-Term Government Rates - Annual Returns Review

Name	Value Stocks	Growth Stocks	Dividend Payers	Non-Dividend Payers	Long-Term Corp Bonds	Long-Term Government Bonds	Intermediate-Term Govt Bonds	U.S. Treasury Bills
Arithmetic Average	15.7%	12.7%	14.3%	11.5%	12.3%	13.4%	8.5%	2.9%
Geometric Average	12.9%	10.5%	12.6%	7.6%	12.0%	13.1%	8.4%	2.9%
Median	16.4%	13.8%	14.9%	12.3%	10.8%	10.7%	7.8%	2.1%
Max	71.1%	48.3%	53.5%	90.5%	42.6%	40.4%	29.1%	10.5%
Min	-43.6%	-37.0%	-34.8%	-48.6%	2.6%	2.8%	1.4%	0.0%
Count	45	45	45	45	45	45	45	45

Source: Kovitz using data from Ibbotson Associates SBBI. From 1930 to 2021.

...and even economic contractions are not reasons for long-term-oriented investors to bail out of stocks.

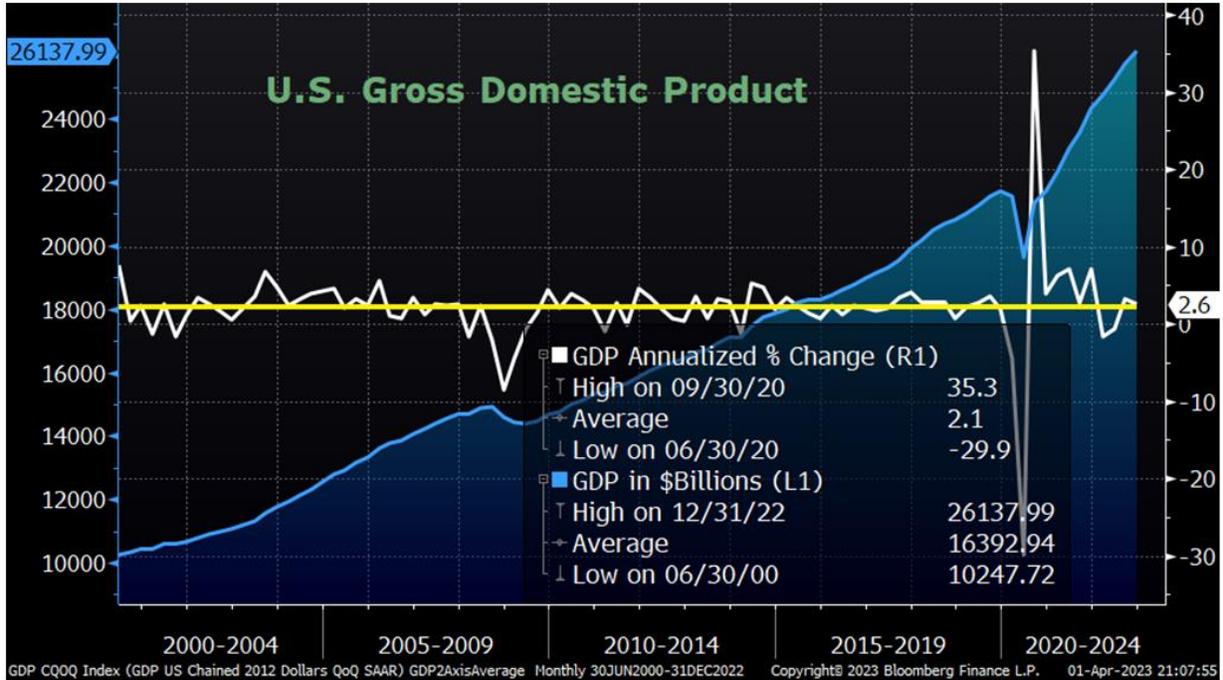
THE PRUDENT SPECULATOR



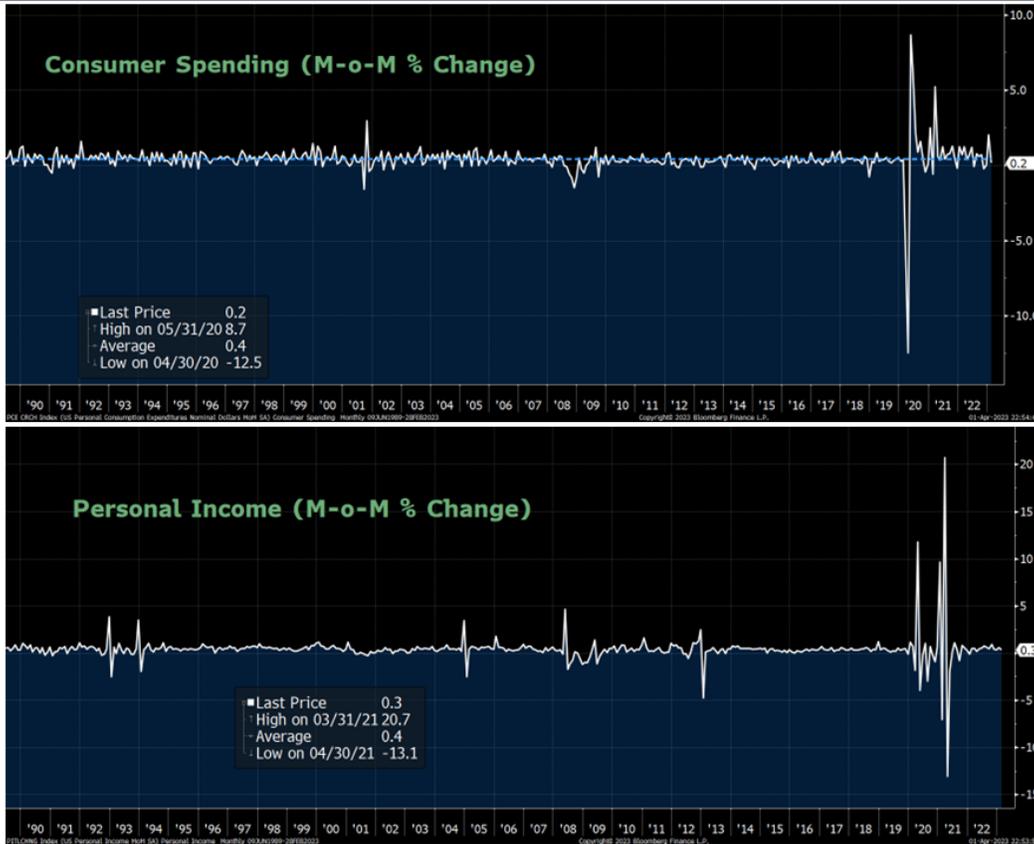
Recession Start Date	Recession End Date	One Year Prior Value	One year Prior Div	Return During Value	Return During Div	One Year Post Value	One Year Post Div	Five Years Post Value	Five Years Post Div
08.31.1929	03.31.1933	30.9%	44.4%	-81.0%	-77.8%	205.5%	101.9%	123.3%	99.3%
05.31.1937	06.30.1938	42.0%	14.3%	-43.1%	-21.5%	-14.5%	2.1%	128.7%	58.2%
02.28.1945	10.31.1945	54.5%	30.0%	25.6%	20.0%	-2.3%	-4.5%	75.7%	58.1%
11.30.1948	10.31.1949	4.8%	2.4%	11.4%	15.7%	43.4%	31.2%	174.6%	153.9%
07.31.1953	05.31.1954	4.7%	3.0%	13.6%	22.8%	60.2%	38.1%	200.7%	151.2%
08.31.1957	04.30.1958	-0.4%	-1.0%	-2.0%	-0.2%	61.1%	42.7%	129.3%	102.3%
04.30.1960	02.28.1961	-6.4%	-2.5%	21.5%	21.5%	16.9%	14.6%	136.8%	73.7%
12.31.1969	11.30.1970	-20.9%	-10.9%	1.1%	-2.3%	11.1%	12.5%	44.1%	28.7%
11.30.1973	03.31.1975	-19.3%	-17.5%	13.0%	-3.3%	51.7%	31.4%	156.1%	76.4%
01.31.1980	07.31.1980	30.5%	24.0%	3.5%	8.7%	23.2%	16.4%	207.3%	109.4%
07.31.1981	11.30.1982	23.2%	16.4%	33.1%	15.7%	39.5%	25.6%	122.8%	99.8%
07.31.1990	03.31.1991	-7.3%	4.2%	5.1%	8.6%	25.6%	13.4%	150.6%	102.1%
03.31.2001	11.30.2001	22.3%	7.9%	3.7%	0.5%	-11.6%	-10.1%	93.4%	47.3%
12.31.2007	06.30.2009	-7.9%	4.9%	-39.2%	-34.4%	24.5%	14.2%	156.5%	136.5%
02.29.2020	04.30.2020	-9.7%	5.6%	-16.9%	-3.4%	85.8%	47.0%	N/A	N/A
AVERAGE		9.4%	8.4%	-3.4%	-2.0%	41.3%	25.1%	126.7%	86.5%

As of 2.28.23. N/A--Not applicable. ¹1-day price change following the quarterly report. ²Trailing 12-month. ³Next 12-months. nmi--Not meaningful. SOURCE: Kowitz Investment Group using data (EPS Adjusted) from Bloomberg Finance L.P.

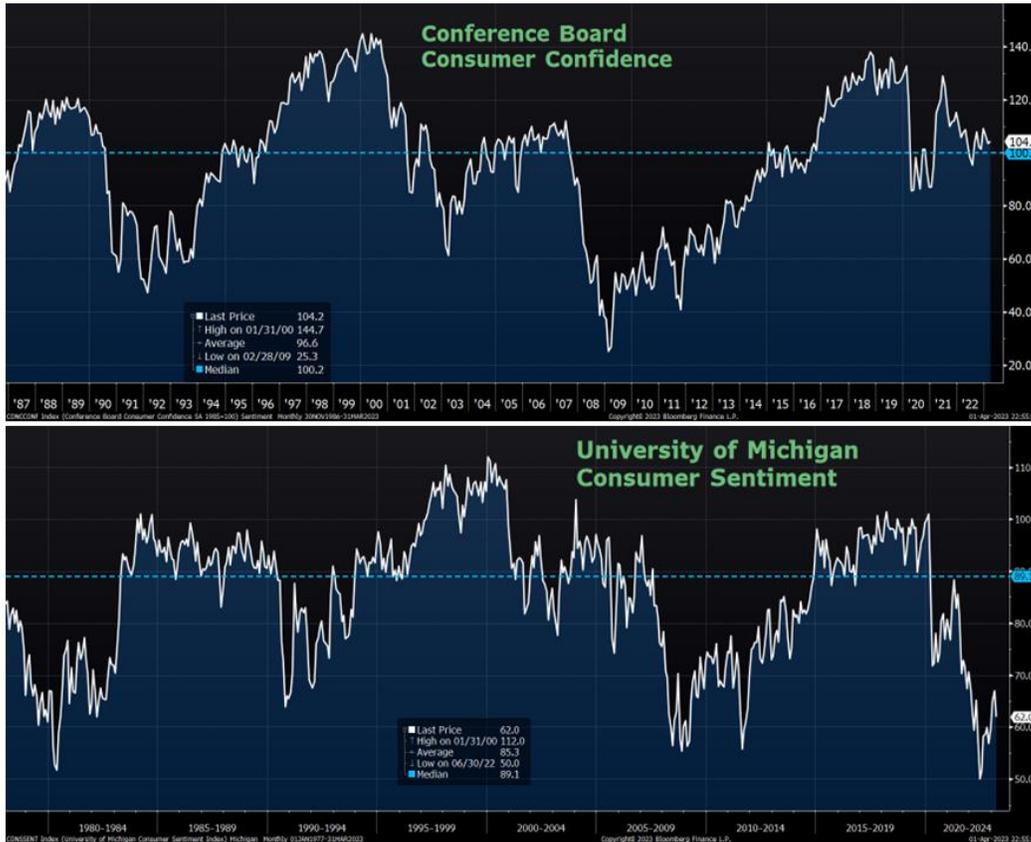
We think this is especially true today, given that real (inflation-adjusted) GDP growth was a solid 2.6% in Q4 2022, with nominal GDP jumping 7.3% to a record high.



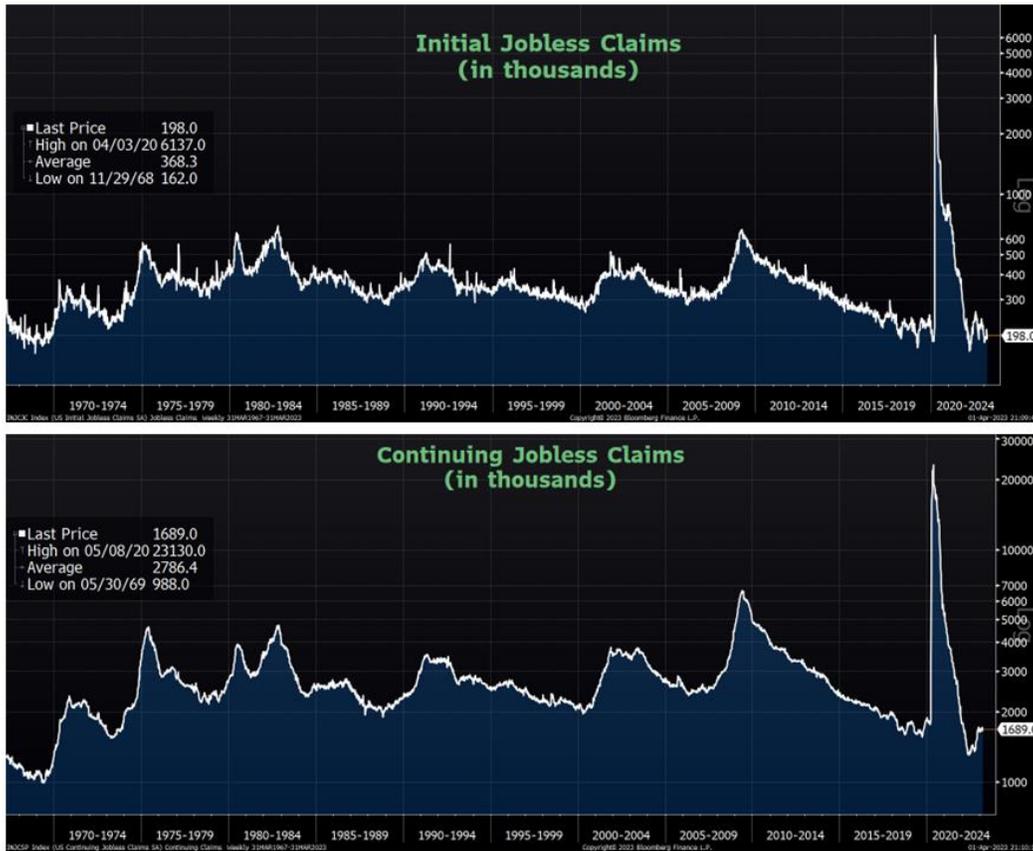
No doubt, it will be tougher sledding for the economy this year, as growth in consumer spending pulled back to 0.2% in February,...



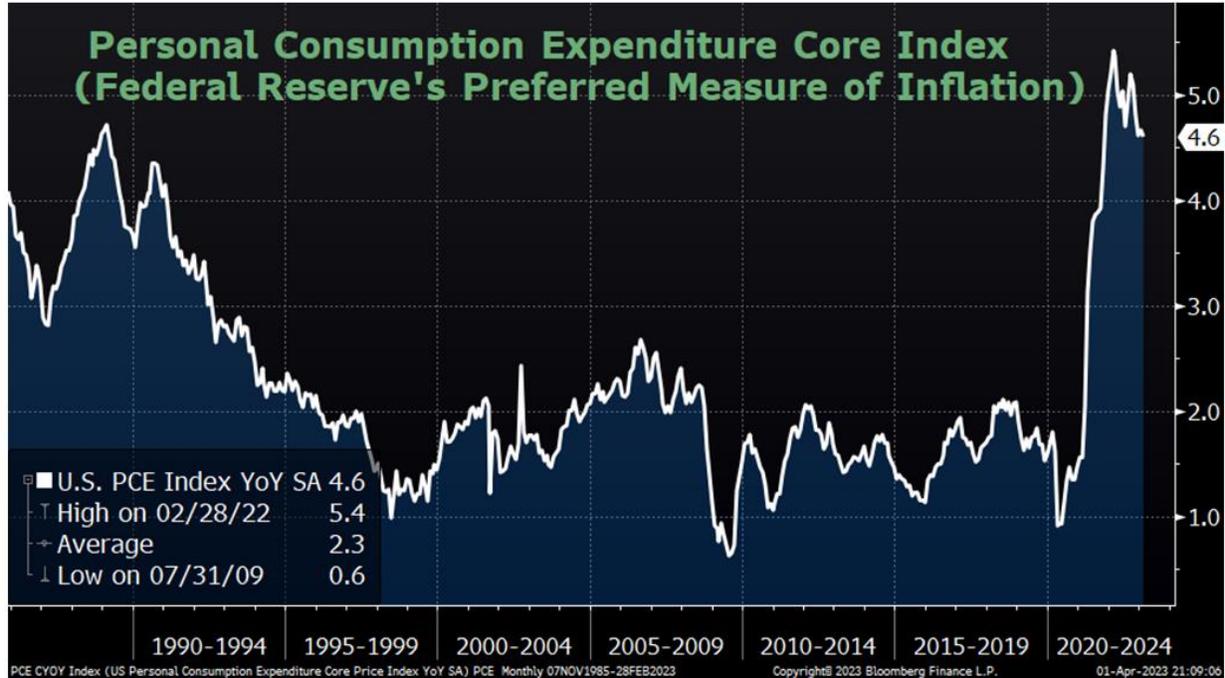
...and consumer confidence/sentiment readings, though better than they were for much of last year, are not exactly grand.



Still, the labor market continues to be very strong, with first-time filings for unemployment benefits remaining below 200,000 in the latest week, a level not seen for more than five decades.



And, the latest read on inflation, the core personal consumption expenditure index, which is the Federal Reserve's preferred measure, rose just 4.6% in February, better than expectations for a 4.7% increase.



As always, we are braced for more big market moves, but we are comfortable that our long-term time horizon is a great risk mitigation tool. Stocks are a volatile asset class, but history shows the merits of patience, as the longer they are held the less the chance of loss.



PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	423	63.2%
3 Months	776	370	67.7%
6 Months	810	333	70.9%
1 Year	831	306	73.1%
2 Year	941	184	83.6%
3 Year	974	139	87.5%
5 Year	976	113	89.6%
7 Year	1029	36	96.6%
10 Year	995	34	96.7%
15 Year	969	0	100.0%
20 Year	909	0	100.0%

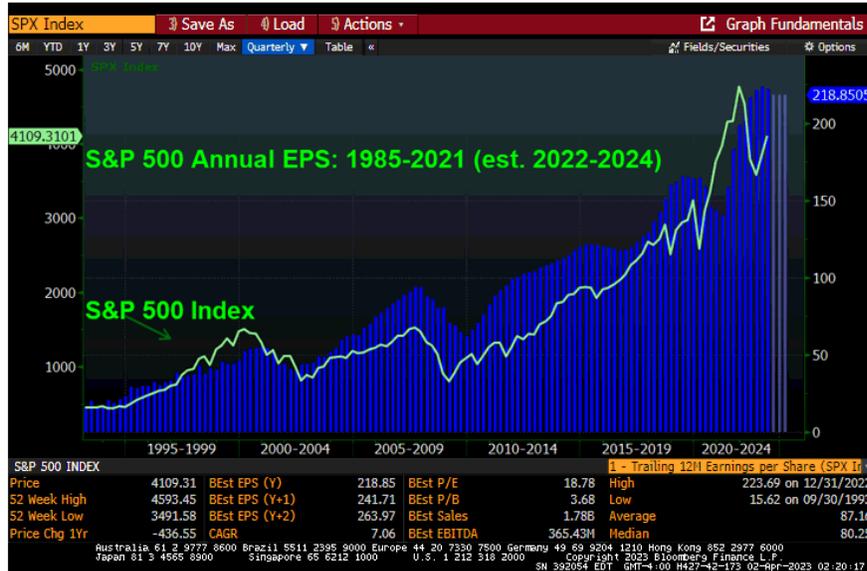
DIVIDEND PAYERS

	Count >0%	Count <=0%	Percent >0%
1 Month	725	423	63.2%
3 Months	796	350	69.5%
6 Months	825	318	72.2%
1 Year	860	277	75.6%
2 Year	962	163	85.5%
3 Year	955	158	85.8%
5 Year	1003	86	92.1%
7 Year	1025	40	96.2%
10 Year	995	34	96.7%
15 Year	969	0	100.0%
20 Year	909	0	100.0%

From 07.31.27 through 02.28.23. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Kovitz using data from Professors Eugene F. Fama and Kenneth R. French

While analysts are often overly optimistic in their outlooks, we note that solid growth in corporate profits is still the forecast for this year and next,...

THE PRUDENT SPECULATOR



S&P 500 Earnings Per Share		
Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2024	\$65.40	\$245.99
9/30/2024	\$63.23	\$238.70
6/30/2024	\$60.32	\$232.23
3/31/2024	\$57.04	\$225.97
12/31/2023	\$58.11	\$219.17
9/30/2023	\$56.76	\$211.43
6/30/2023	\$54.06	\$205.02
3/31/2023	\$50.24	\$197.83
12/31/2022	\$50.37	\$196.95
ACTUAL		
9/30/2022	\$50.35	\$203.31
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

Source: Standard & Poor's. As of 3.23.23

...which adds to the comfort afforded by the valuation metrics of our broadly diversified portfolios of what we believe to be undervalued stocks.



CURRENT PORTFOLIO AND INDEX VALUATIONS

Name	Price to Earnings Ratio	Price to Fwd. Earnings Ratio	Price to Sales Ratio	Price to Book Ratio	Dividend Yield
TPS Portfolio	12.1	12.2	0.8	2.2	2.9
ValuePlus	12.7	12.4	1.1	2.2	2.5
Dividend Income	11.9	12.2	0.7	2.0	3.4
Focused Dividend Income	12.8	12.6	1.0	2.3	3.0
Focused ValuePlus	13.2	13.0	1.2	2.5	2.7
Small-Mid Dividend Value	10.4	10.1	0.5	1.5	3.1
Russell 3000	20.6	19.2	2.1	3.7	1.7
Russell 3000 Growth	29.0	25.2	3.3	9.1	1.0
Russell 3000 Value	15.7	15.3	1.5	2.3	2.4
Russell 1000	20.1	18.9	2.2	3.9	1.7
Russell 1000 Growth	28.4	24.9	3.6	10.0	1.0
Russell 1000 Value	15.4	15.1	1.6	2.4	2.4
S&P 500 Index	19.7	18.8	2.3	4.1	1.7
S&P 500 Growth Index	20.1	20.3	3.2	6.9	1.4
S&P 500 Value Index	18.7	16.8	1.7	2.7	2.0
S&P 500 Pure Value Index	9.7	9.7	0.6	1.4	2.9

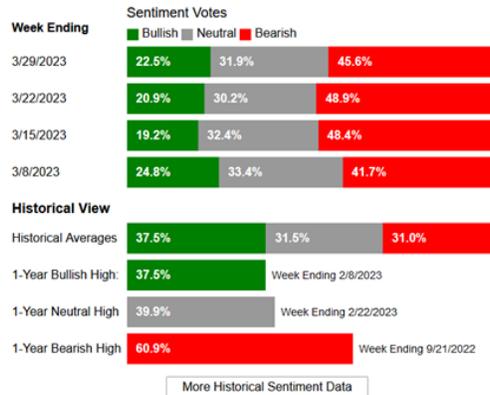
As of 04.01.23. Weights based on model portfolios. Harmonic mean used to calculate the portfolio price metrics. Companies with negative earnings are excluded from the P/E and Estimated P/E calculations. SOURCE: Kovitz using data from Bloomberg Finance L.P.

With concerns about the health of the regional banking system dissipating somewhat last week, as the Federal Reserve disclosed on Friday that customer deposits totaled \$5.39 trillion at small banks in the week ended March 22, virtually unchanged from the \$5.38 trillion level the week prior, we can't help but remain upbeat about the prospects for stocks.

This is especially true in that many are excessively pessimistic in their views, with the weight of the returns evidence confirming that more often than not it has paid to be greedy when others are fearful.



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



AAII Bull-Bear Spread

Decile	Low Reading of the	High Reading of the	Count	R3K	R3K	R3K	R3K	R3K	R3K	R3K	R3K
	Range	Range		Next 1-Week Arithmetic Average TR	Next 1-Week Geometric Average TR	Next 1-Month Arithmetic Average TR	Next 1-Month Geometric Average TR	Next 3-Month Arithmetic Average TR	Next 3-Month Geometric Average TR	Next 6-Month Arithmetic Average TR	Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 7.01											
BELOW	-54.0	7.0	930	0.24%	0.20%	1.14%	1.00%	3.30%	2.90%	6.42%	5.66%
ABOVE	7.0	62.9	929	0.17%	0.16%	0.53%	0.44%	2.00%	1.75%	4.64%	4.15%
Ten Groupings of 1858 Data Points											
1	-54.0	-17.0	188	0.40%	0.34%	2.10%	1.87%	4.57%	4.05%	8.24%	7.06%
2	-17.0	-9.0	184	0.23%	0.19%	0.88%	0.74%	3.44%	3.06%	6.01%	5.22%
3	-8.9	-2.6	186	0.33%	0.29%	1.02%	0.91%	3.45%	3.05%	7.65%	6.94%
4	-2.6	2.6	186	0.17%	0.13%	0.99%	0.89%	2.36%	1.97%	5.25%	4.68%
5	2.6	7.0	186	0.06%	0.03%	0.70%	0.61%	2.65%	2.38%	4.92%	4.39%
6	7.0	11.4	185	0.21%	0.20%	0.72%	0.64%	2.19%	1.97%	4.94%	4.49%
7	11.5	16.0	187	0.17%	0.15%	0.39%	0.25%	2.23%	1.96%	5.05%	4.54%
8	16.0	21.7	185	0.10%	0.09%	0.86%	0.79%	2.21%	1.97%	5.80%	5.38%
9	21.7	29.0	187	0.15%	0.13%	0.39%	0.31%	1.85%	1.55%	4.80%	4.24%
10	29.0	62.9	185	0.23%	0.21%	0.30%	0.23%	1.51%	1.29%	2.60%	2.15%

From 07.31.87 through 03.30.23. Unannualized. SOURCE: Kovitz using data from American Association of Individual Investors and Bloomberg

For those looking to do some buying, we offer the reminder that it continues to be a market of stocks and not a stock market. Indeed, the performance dispersion for individual stocks was about as wide as we have ever seen in Q1, with stocks on the right side of the ledger in the table below perhaps of most interest to those looking to add incremental equity exposure to their portfolios.



Market of Stocks: 2023 Q1 Advancers & Decliners

TPS Winners									TPS Losers								
Sector	Symbol	Company	03.31.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low	Sector	Symbol	Company	03.31.23 Price	Target Price	YTD 2023 TR	2022 TR	52-Week High	52-Week Low
Media	META	Meta Platforms	\$211.94	\$261.25	76.1%	-64.2%	\$236.86	\$88.09	Banks	CMA	Comerica	\$43.42	\$89.85	-34.0%	-20.4%	\$93.96	\$29.17
Transportation	FDX	FedEx	\$228.49	\$331.58	32.7%	-31.7%	\$248.76	\$141.92	Banks	KEY	KeyCorp	\$12.52	\$22.13	-27.3%	-21.7%	\$22.75	\$9.61
Consumer Svcs	RCL	Royal Caribbean	\$65.30	\$80.48	32.1%	-35.7%	\$87.68	\$31.09	Specialty Retail	BIG	Big Lots	\$10.96	\$23.16	-23.7%	-65.6%	\$39.49	\$9.78
Tech Hardware	JBL	Jabil Inc	\$88.16	\$98.90	29.4%	-2.6%	\$88.30	\$48.80	Banks	CFG	Citizens Financial	\$30.37	\$60.51	-22.1%	-13.4%	\$46.10	\$28.79
Tech Hardware	AAPL	Apple	\$164.90	\$173.50	27.1%	-26.4%	\$178.49	\$124.17	Banks	TFC	Truist Financial	\$34.10	\$57.24	-19.9%	-23.5%	\$57.50	\$28.70
Tech Hardware	STX	Seagate Tech	\$66.12	\$89.58	27.1%	-51.4%	\$91.80	\$47.47	Health Care	CVS	CVS Health	\$74.31	\$138.84	-19.7%	-7.6%	\$107.73	\$72.11
Semiconductors	LRCX	Lam Research	\$530.12	\$594.19	26.6%	-40.7%	\$548.85	\$299.59	Pharma, Biotech	PFE	Pfizer	\$40.80	\$64.68	-19.6%	-10.4%	\$56.32	\$39.23
Semiconductors	INTC	Intel	\$32.67	\$39.38	25.2%	-46.7%	\$49.90	\$24.59	Software	GEN	Gen Digital	\$17.16	\$34.27	-19.5%	-15.8%	\$27.33	\$15.52
Transportation	DPSGY	Deutsche Post AG	\$46.77	\$71.31	24.7%	-38.6%	\$47.31	\$28.66	Insurance	MET	MetLife	\$57.94	\$89.05	-19.4%	19.2%	\$77.36	\$52.83
Cons Durables	MDC	MDC Holdings	\$38.87	\$54.99	24.6%	-40.1%	\$41.41	\$27.04	Banks	ONB	Old National Banc	\$14.42	\$20.23	-19.2%	2.5%	\$20.19	\$13.69
Health Care	PHG	Koninklijke Philips	\$18.35	\$27.81	22.4%	-57.7%	\$31.53	\$11.75	Banks	PNC	PNC Financial	\$127.10	\$216.08	-18.8%	-18.6%	\$188.59	\$119.27
Energy	CIVI	Civitas Resources	\$68.34	\$89.24	21.9%	30.8%	\$84.76	\$44.17	Banks	FITB	Fifth Third Bancorp	\$26.64	\$42.22	-17.8%	-21.9%	\$43.82	\$22.11
Capital Goods	SIEGY	Siemens AG	\$80.95	\$91.86	21.1%	-18.3%	\$81.43	\$46.37	Insurance	ALL	Allstate	\$110.81	\$153.34	-17.7%	18.3%	\$144.46	\$103.20
Semiconductors	MU	Micron Tech	\$60.34	\$78.07	20.7%	-45.9%	\$78.91	\$48.43	Insurance	PRU	Prudential Fin'l	\$82.74	\$128.35	-15.8%	-3.9%	\$122.54	\$75.37
Software	MSFT	Microsoft	\$288.30	\$345.06	20.5%	-28.0%	\$315.11	\$213.43	Pharma, Biotech	MRNA	Moderna	\$153.58	\$214.40	-14.5%	-29.3%	\$217.25	\$115.03
Semiconductors	COHU	Cohu Inc	\$38.39	\$44.17	19.8%	-15.9%	\$38.63	\$24.06	Banks	OZK	Bank OZK	\$34.20	\$59.91	-13.9%	-11.3%	\$49.52	\$31.48
Semiconductors	KLIC	Kulicke & Soffa	\$52.69	\$69.72	19.5%	-25.8%	\$58.81	\$35.95	Food, Beverage	ADM	Archer-Daniels	\$79.66	\$107.32	-13.7%	39.9%	\$98.88	\$70.02
Specialty Retail	DKS	Dick's Sporting	\$141.89	\$161.59	18.8%	6.6%	\$152.61	\$63.45	Transportation	NSC	Norfolk Southern	\$212.00	\$294.74	-13.5%	-15.6%	\$285.57	\$196.33
Capital Goods	ENS	EnerSys	\$86.88	\$123.81	17.9%	-5.6%	\$94.32	\$55.60	Banks	BAC	Bank of America	\$28.60	\$50.23	-13.1%	-23.8%	\$41.74	\$26.32
Media	GOOG	Alphabet	\$104.00	\$155.20	17.2%	-38.7%	\$144.04	\$83.45	REITs	ARE	Alexandria RE	\$125.59	\$216.14	-12.9%	-32.6%	\$206.85	\$114.95
Semiconductors	QCOM	Qualcomm	\$127.58	\$193.17	16.7%	-38.6%	\$156.66	\$101.93	Materials	WRK	Westrock	\$30.47	\$57.05	-12.6%	-18.8%	\$54.78	\$26.84
Media	OMC	Omnicom Group	\$94.34	\$110.89	16.6%	15.7%	\$96.52	\$61.31	Pharma, Biotech	JNJ	Johnson & Johnson	\$155.00	\$205.31	-11.6%	6.0%	\$186.69	\$150.11
Capital Goods	TKR	Timken	\$81.72	\$103.45	16.0%	3.9%	\$89.40	\$50.85	Capital Goods	MMM	3M	\$105.11	\$170.67	-11.2%	-29.6%	\$154.66	\$100.16
Autos	HMC	Honda Motor	\$26.49	\$32.86	15.9%	-16.7%	\$28.50	\$21.44	Cons Durables	HAS	Hasbro	\$53.69	\$94.32	-11.0%	-37.9%	\$94.22	\$45.75

As of 3.31.23. Source: Kovitz using data from Bloomberg

Stock Updates

Keeping in mind that all stocks are rated as a “Buy” until such time as they are a “Sell,” a listing of all current recommendations is available for download via the following link:

<https://theprudentpeculator.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 take a look at earnings reports and other market-moving news of note out last week for a couple of our recommendations.

While not technically a *Sales Alert*, we swapped our ordinary **Volkswagen AG** (VWAGY – \$17.10) shares for Volkswagen’s preference shares (VWAPY – \$13.60) on Friday, March 31. We fetched no less than \$17.0958 for the sales of VWAGY and paid no more than \$13.6004 for the purchase of the preferred VWAPY shares, but we grew our ownership stake by some 25% in the process. We will use these prices for the dollar-for-dollar swap of the automaker in PruFolio, where we let go of 1553 VWAGY and added 1952 VWAPY.

Believe it or not, the two classes of stock offer essentially the same ownership interest and dividend participation, with the preference shares actually providing a very small amount of

additional payout. The preference shares do not have voting rights, which are essentially meaningless, given that Porsche Automobil Holding SE, Stuttgart, held 53.3% of the voting rights. The second-largest shareholder was the State of Lower Saxony, which held 20.0% of the voting rights. Qatar Holding LLC was the third-largest shareholder with 17.0%.

True, being more closely aligned with Porsche proved highly beneficial back in October 2008, when the “mother of all short squeezes” sent the ordinary shares up four-fold in a day or two, but we see no reason not to favor the 25% greater ownership and dividend payout by making the swap. We thank one of our readers for moving this issue (there has long been a price gap between the two classes) to the top of the research team’s focus list.

We remain confident that Volkswagen’s electric vehicle transition is the right move, despite it costing large sums in R&D funds, while it was nice to see the hefty special dividend hit accounts in January from the Porsche AG IPO. Our Target Price for VWAPY is \$29.

It was a roller-coaster ride for shares of **Micron Tech** (MU – \$60.34) last week. The chipmaker reported fiscal Q2 2023 results on Tuesday. The company lost an adjusted \$1.91 per share (vs. - \$0.63 est.) and had revenue near \$3.7 billion. Despite the brutal second quarter report, the company’s outlook was broadly positive, sending shares up more than 7% and sparking enthusiasm across the industry that the worst might be behind MU and its peers.

CEO Sanjay Mehrotra said, “The semiconductor memory and storage industry is facing its worst downturn in the last 13 years, with an exceptionally weak pricing environment that is significantly impacting our financial performance. We have taken substantial supply reduction and austerity measures, including executing a companywide reduction in force. We now believe that customer inventories have reduced in several end markets, and we see gradually improving supply/demand balance in the months ahead. Excluding the impact of inventory write-downs, we believe our balance sheet DIO has peaked in fiscal Q2, and we are close to a transition to sequential revenue growth in our quarterly results.”

Mr. Mehrotra continued, “We are navigating the near-term difficult environment with our strong technology position, deep manufacturing expertise, strengthening product portfolio, solid balance sheet and incredibly talented team. Beyond this downturn, we anticipate a return to normalized growth and profitability in line with our long-term financial model.”

On the topic of end markets, Mr. Mehrotra said, “As a result of inventory adjustments across our end markets, slowing demand growth and an extremely challenging pricing environment, revenue was down year-over-year in all end markets. While our industry faces significant near-term challenges, we believe that the memory and storage TAM will grow to a new record in calendar 2025 and will continue to outpace the growth of the semiconductor industry thereafter.”

Mr. Mehrotra offered Micron’s general market outlook, “Our expectations for calendar 2023 industry bit demand growth have moderated to approximately 5% in DRAM and low-teens percentage range in NAND, which are well below the expected long-term CAGR of mid-teens percentage range in DRAM and low-20s percentage range in NAND. The reduction in calendar 2023 demand from our prior forecast is driven by an assessment of customer inventories as well

as some degradation in end-market demand. We expect that improving customer inventories will support sequential bit demand growth for DRAM and NAND through the calendar year. China's reopening is also a positive factor for calendar 2023 bit demand. Public reports indicate that there have been significant CapEx cuts throughout the industry and utilization rates have declined at all DRAM and NAND suppliers. We now expect that the industry bit supply growth for DRAM and NAND in calendar 2023 will be below demand growth, which will help improve supplier inventories. While the supply demand balance is expected to gradually improve, due to the high levels of inventories, industry profitability and free-cash flow are likely to remain extremely challenged in the near-term. Market recovery can accelerate, if there is a year-to-year reduction in-production or in other words, negative DRAM and NAND industry bit supply growth in 2023."

CFO Mark Murphy gave the outlook, "Our non-GAAP guidance for fiscal Q3 is as follows. We expect revenue to be \$3.7 billion plus or minus \$200 million. Gross margin to be in the range of negative 21% plus or minus 250 basis points and operating expenses to be approximately \$900 million, plus or minus \$15 million. We expect tax expense of approximately \$50 million. Based on a share count of approximately 1.09 billion shares, we expect EPS to be a loss of \$1.58 plus or minus \$0.07."

The enthusiasm for the stock faded on Friday, however, when Chinese regulators said they were launching a review of Micron products sold in the country. Per a report from *Barrons.com*, Cyberspace Administration of China, one of the country's main technology regulators, said that it was implementing a cybersecurity review of products sold by Micron in China "to ensure the security of the key information infrastructure supply chain, prevent network security risks caused by hidden product problems, and maintain national security."

Though the stock closed lower for the full week of trading, Micron's outlook was encouraging, even as the company is not out of the woods yet. Even without potential problems in China, management was still predicting losses, and industry trends have not returned to some version of normal. Of course, stocks prices tend to reflect the future and the smallest inkling that relief might be on the horizon was a cause for MU's share price to rise. On average, Wall Street analysts expect MU to return to profitability in fiscal Q3 of 2024 and quickly gain momentum. Our Target Price for MU is now \$78.

Kovitz Investment Group Partners, LLC ("Kovitz") is an investment adviser registered with the Securities and Exchange Commission. This report should only be considered as a tool in any investment decision matrix and should not be used by itself to make investment decisions. Opinions expressed are only our current opinions or our opinions on the posting date. Any graphs, data, or information in this publication are considered reliably sourced, but no representation is made that it is accurate or complete and should not be relied upon as such. This information is subject to change without notice at any time, based on market and other conditions. Past performance is not indicative of future results, which may vary.