the Prudent Speculator

IN PARTNERSHIP WITH KOVITZ

SPECIAL REPORT:

2024 STOCK MARKET OUTLOOK

tps

2024 Stock Market Outlook

DECEMBER 2023

John Buckingham
Principal
Portfolio Manager

Jason R. Clark, CFA
Principal
Portfolio Manager

Christopher Quigley, CFA
Senior Research
Analyst

Zack Tart
Portfolio & Research
Associate

KEY TAKEAWAYS

- **Bullish on Value in 2024** - Geopolitics, interest rates and economic health are potential headwinds, but Value is undervalued.
- **Where to Invest in '24** - We offer seven investment themes with more than 40 individual stock ideas for your portfolio.
- **47th Year of TPS** - Patience and discipline are the hallmarks of our time-tested approach.

A TPS-favorite adage, "The only problem with market timing is getting the timing right," certainly applied to the equity universe in 2023. No doubt, economic causes for concern cropped up, while events on the geopolitical stage added consternation, but we did not experience a recession or sustained market plunge. There were two 10% corrections along the way, while the average stock was mired in the red for much of the year before rallying post-Halloween and the sizable returns of the capitalization-weighted market indexes were driven by huge gains in just a handful of mega-cap names. However, we again saw that the secret to investment success in stocks is not to get scared out of them.

Fear today is still running high as the odds of recession, as tabulated by Bloomberg, stand at 50%, but such an event would not be reason to abandon stocks. Sure, modest equity losses could be avoided if one knew in advance when a recession officially began and when it ended, but it is likely that those worried about the economy would be sitting on the sidelines ahead of and after a recession, missing out on sizable rewards (see Figure 1).

Figure 1: Do Not Abandon Inexpensively Priced Stocks

Value Stock Recession Performance

Recession Start	Recession End	One Year Prior	Return During Recession	One Year Post	Five Years Post
08.31.1929	03.31.1933	30.9%	-81.0%	205.5%	123.3%
05.31.1937	06.30.1938	42.0%	-43.1%	-14.5%	128.7%
02.28.1945	10.31.1945	54.5%	25.6%	-2.3%	75.7%
11.30.1948	10.31.1949	4.8%	11.4%	43.4%	174.6%
07.31.1953	05.31.1954	4.7%	13.6%	60.2%	200.7%
08.31.1957	04.30.1958	-0.4%	-2.0%	61.1%	129.3%
04.30.1960	02.28.1961	-6.4%	21.5%	16.9%	136.8%
12.31.1969	11.30.1970	-20.9%	1.1%	11.1%	44.1%
11.30.1973	03.31.1975	-19.3%	13.0%	51.7%	156.1%
01.31.1980	07.31.1980	30.5%	3.5%	23.2%	207.3%
07.31.1981	11.30.1982	23.2%	33.1%	39.5%	122.8%
07.31.1990	03.31.1991	-7.3%	5.1%	25.6%	150.6%
03.31.2001	11.30.2001	22.3%	3.7%	-11.6%	93.4%
12.31.2007	06.30.2009	-7.9%	-39.2%	24.5%	156.5%
02.29.2020	04.30.2020	-9.7%	-16.9%	85.8%	N/A
	AVERAGE	**9.4%**	**-3.4%**	**41.3%**	**126.7%**

Returns are not annualized. SOURCE: Kovitz using data from Bloomberg Finance L.P and Professors Eugene F. Fama and Kenneth R. French

With reasonably priced companies trailing their more-expensive Growth counterparts in the annual performance derby, we are even more enthused about the prospects for Value stocks heading into the new year. Markets will remain volatile as traders hang on news from the Middle East, Ukraine, Russia and China, not to mention utterances from Federal Reserve officials and the release of pertinent economic statistics. However, equities have managed to overcome all sorts of worrisome events through the years (see Figure 2) while Value has won the long-term total-returns race by a wide margin (see Figure 3). What's more, historical data show Value has performed well, on average, in election years and when interest rates are rising or falling.

Figure 2: The Stock Market Has Persevered Through Scary Events

Market Events and S&P Price Returns

Event	Event Start	Event End	Event Gain/ Loss	12 Months Later	36 Months Later	60 Months Later	Event to Present
Pearl Harbor	12.06.1941	12.10.1941	-7%	8%	51%	76%	53154%
Korean War	06.23.1950	07.13.1950	-13%	32%	45%	153%	27596%
Suez Canal Crisis	10.30.1956	10.31.1956	-2%	-10%	26%	51%	10041%
Cuban Missile Crisis	08.23.1962	10.23.1962	-10%	36%	72%	78%	8542%
JFK Assassination	11.21.1963	11.22.1963	-3%	24%	14%	53%	6540%
Nixon Resigns	08.09.1974	08.29.1974	-13%	24%	38%	56%	6504%
Crash of '87	10.02.1987	10.19.1987	-31%	23%	39%	85%	1956%
Gulf War Ultimatum	12.24.1990	01.16.1991	-4%	32%	50%	92%	1362%
Russia Mexico Orange County	10.11.1994	12.20.1994	-2%	33%	107%	210%	911%
Asian Stock Market Crisis	10.07.1997	10.27.1997	-11%	21%	57%	2%	427%
Russian LTCM Crisis	08.18.1998	10.08.1998	-13%	39%	11%	8%	382%
Clinton Impeachment	12.19.1998	02.12.1999	4%	13%	-10%	-6%	276%
September 11 Attacks	09.10.2001	09.21.2001	-12%	-12%	17%	36%	379%
Iraq War	03.19.2003	05.01.2003	5%	21%	42%	54%	404%
2008 Market Crash	09.15.2008	03.09.2009	-43%	69%	103%	178%	583%
Price Changes Only - Does Not Include Dividends			**-10%**	**24%**	**44%**	**75%**	**7937%**

As of 12.11.2023. SOURCE: Kovitz using data from Bloomberg Finance L.P. and Ned Davis Research Events & Reaction Dates

Figure 3: Value Stocks Have a History of Success

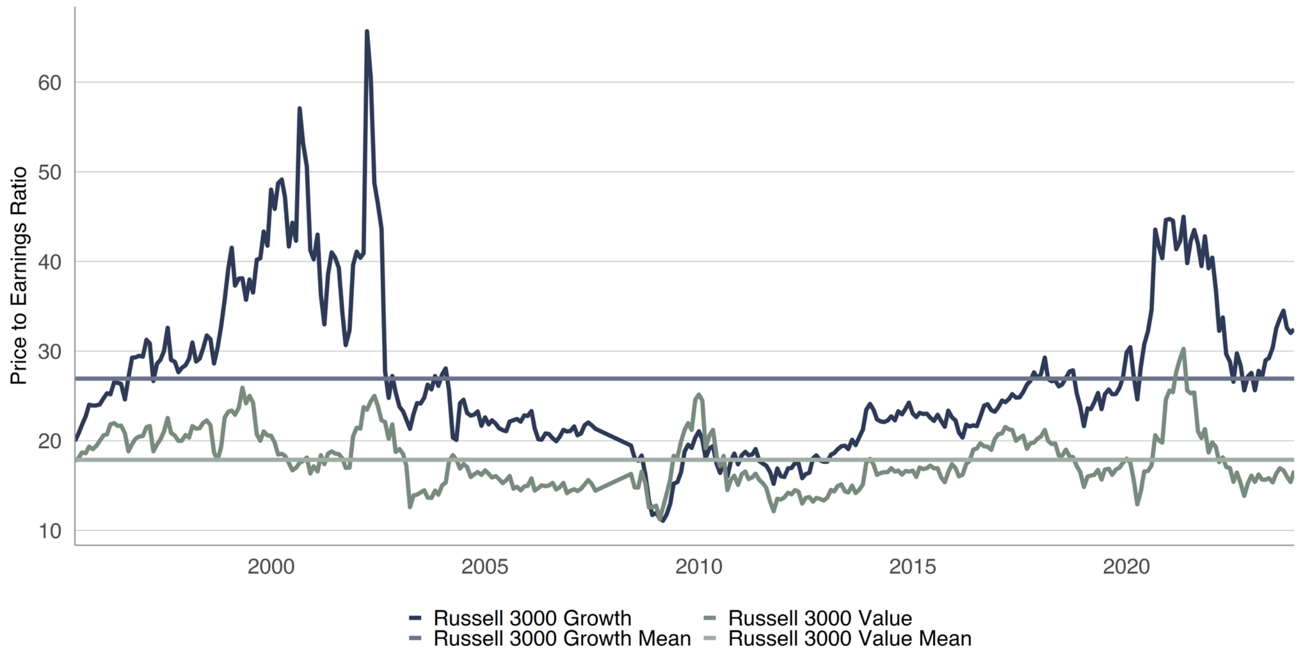
Ultra-Long-Term Returns

	Annualized Return	Standard Deviation
Value Stocks	13.0%	25.9%
Growth Stocks	9.6%	21.4%
Dividend-Paying Stocks	10.6%	18.0%
Non-Dividend-Paying Stocks	9.0%	29.3%
Long-Term Gov't Bonds	5.1%	8.7%
Intermediate Gov't Bonds	4.9%	4.4%
Treasury Bills	3.2%	0.9%
Inflation	3.0%	1.8%

From 06.30.1927 through 06.30.2023. SOURCE: Kovitz using data from Ibbotson Associates and Professors Eugene F. Fama and Kenneth R. French

The Value indexes have been performing much better of late, and they outperformed in 2022, but the valuation gap between Value and Growth that was very wide at the start of the year has grown even wider today. Indeed, Value stocks remain priced below their long-term average price-to-earnings ratios, while Growth stocks trade above their long-term average multiples (see Figure 4). Even better, from our way of thinking, are the much more inexpensive valuation metrics and generous dividend yields associated with our broadly diversified portfolios. Figure 5 shows how the numbers on our managed-account strategies compare to the major market averages and the value indexes from a valuation perspective.

Figure 4: Russell Index Valuations



From 05.31.1995 through 11.30.2023. SOURCE: Kovitz using data from Bloomberg Finance L.P.

Figure 5: TPS Portfolios Trade at Discounted Valuations

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	**14.4**	**13.2**	**0.8**	**2.2**	**2.8**
ValuePlus	**14.4**	**13.2**	**1.1**	**2.2**	**2.5**
Dividend Income	**13.6**	**12.9**	**0.8**	**2.0**	**3.3**
Focused Dividend Income	**14.7**	**13.2**	**1.1**	**2.3**	**3.1**
Focused ValuePlus	**16.0**	**13.7**	**1.3**	**2.6**	**2.6**
Small-Mid Dividend Value	**10.9**	**10.8**	**0.5**	**1.5**	**3.1**
Russell 3000	22.9	21.8	2.3	3.9	1.5
Russell 3000 Growth	33.0	30.1	4.0	10.8	0.7
Russell 3000 Value	16.8	16.4	1.5	2.2	2.4
Russell 1000	22.6	21.5	2.4	4.2	1.5
Russell 1000 Growth	32.2	29.6	4.2	11.8	0.7
Russell 1000 Value	16.7	16.2	1.6	2.4	2.4
S&P 500 Index	22.1	21.3	2.5	4.3	1.5
S&P 500 Growth Index	25.0	24.0	3.7	7.4	1.2
S&P 500 Value Index	19.5	18.8	1.8	2.9	1.9
S&P 500 Pure Value Index	11.3	11.3	0.5	1.2	2.7

As of 12.11.2023. 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.

WHERE TO INVEST IN 2024

In the mid-year update to our 2023 Outlook, we refreshed our seven investment themes and wrote that we prefer to leave the economic fretting to others as we seek capital appreciation and income from our Value-oriented portfolios. In that sense, not much has changed in the ensuing six months. It doesn't mean we haven't been busy. In the back half of the year, we added several new names to our broadly diversified portfolios, trimmed many others and closed our stake in Old National Bank. We believe the updates were necessary to keep our portfolios healthy, while we continue to like our discounted valuations relative to the overall stock market.

Even as we actively fish in the Value pond and constantly tout the merits of Value investing, we do want to remind clients, subscribers and friends of The Prudent Speculator that equity indexes generally focus on one or a couple valuation measures (e.g. price to book value) to segregate the market into Value and Growth divisions and we have long been equal opportunity stock pickers, focusing not just on backward-looking income statement and balance sheet calculations. Yes, we think these are important, and we will not consider a stock for purchase unless it ranks highly in our proprietary scoring system, but the markets are littered with the bones of stocks that had at one point traded for a single-digit P/E ratio or at a big discount to book value, only to see profits evaporate and assets written down to next to nothing.

We cannot always avoid the so-called Value traps, but we have long added qualitative reviews of our companies to the mix in an attempt to ensure a viable business model, healthy competitive position, able management and, in the case of many cyclical companies, the wherewithal to make it through to the next upswing. Further, and perhaps most importantly, our Target Prices incorporate our view of each company's long-term growth prospects, so that the stocks we choose to buy offer significant total return potential (capital appreciation and income) relative to the risk we think is inherent in our ownership.

The Prudent Speculator is now in its 47th year and we are always working to evolve our methodologies, but we think our unique and disciplined approach to navigating the equity markets will continue to serve us well as we believe that there is plenty of Value available in individual stock picking. That in mind, we explore seven themes and specific stocks which we think those who share our long-term view should be considering as we head into 2024 and beyond.

YELLING FIRE IN A CROWDED THEATRE

In March, the lightning-quick collapse of two prominent institutions in Silicon Valley Bank and Signature Bank after uninsured depositors fled en masse was followed by the demise of European financial behemoth Credit Suisse and prominent California lender First Republic. Even though the collapses began in the Regional Bank corner of the wider Financials sector, acute worries rippled through the entire system. Fortunately, the threatened mass exodus of depositors has failed to materialize and a subsequent regulatory bank stress test came and went without issue.

The ordeal's impact on stock prices has been uneven. The S&P Regional Bank index dropped more than 15% in the first eleven months of 2023, while the S&P 500 Diversified Financials index gained 10%. Concerns remain about net interest margins, commercial real estate defaults and shrinking loan volumes, but we think there should be much more enthusiasm for healthy Regional Banks offering superb risk-reward profiles with rich dividend yields.

Though one wouldn't necessarily guess given the drubbing in 2023, we like **PNC Financial (PNC)** for its history of good risk management and it boasts a broadly diversified loan book, solid capital ratios and strong credit quality. Despite being perceived to live on the riskier end of the spectrum, **Bank OZK (OZK)** has rallied higher recently, thanks to the bank's avoidance of held-to-maturity securities and a diverse base of predominately insured, mostly retail depositors.

Looking at bigger banks, it's hard not to like **JPMorgan Chase (JPM)**, as its fortress balance sheet provides a stable keel to go along with an ability to generate profits in varied environments. A statistically deeper bargain, trading at a huge discount to tangible book value, we are liking the turnaround efforts underway at globally diverse **Citigroup**

(C) under CEO Jane Fraser. We also think **Goldman Sachs (GS)** stands out with its well-known financial prowess that has helped maintain immense profitability despite weathering multiple strategic shifts in recent years.

Also in the Financials sector, shares of debt-neutral and tech-oriented **PayPal (PYPL)** have fallen nearly 80% since 2021 as investors folded their hands and created what we thought was a great opportunity to pick up an undervalued stock in September. We expect PayPal's new leader, Alex Chriss from Intuit, will be able to reinvigorate the company, build some of PayPal's sub-brands like Venmo and improve returns for shareholders.

HEALTH CARE (TEMPORARILY) IN THE SICK BAY

A shift in investor attention away from safer stocks, worries about government price controls or question marks about medical cost ratios made for frequent up-and-down gyrations among health care companies in 2023. Despite long-term demographic trends broadly supportive of continued growth and solid earnings, investors oscillated between spooked and confident, at least as reflected by the S&P 500 Health Care index in mid-December standing roughly where it started the year.

True, more modest growth potential today might suggest lower valuation metrics are warranted than in years past. However, in an environment where Utility stocks trade for P/E ratios in the mid-teens, we believe that Big Pharma stocks like **Pfizer (PFE)** and **Bristol-Myers Squibb (BMY)** as well as biotech giants **Amgen (AMGN)** and **Gilead Sciences (GILD)**, all of which boast Utility-like yields, deserve significantly more love.

Looking at managed-care, industry giant UnitedHealth's disclosure that costs were on the rise due to an increase in pandemic-delayed surgeries among older adults has created a great entry point in stocks like **Elevance Health (ELV)** and **CVS Health (CVS)**, each of which trades for significantly lower multiples of earnings.

With the pandemic-related slowdown in voluntary procedures largely in the past, hip and knee orthopedic implant king **Zimmer Biomet (ZBH)** has encountered a new purported headwind: GLP-1 drugs (such as Ozempic), which have the potential to make a major dent in global obesity rates. The thinking is that lower Body Mass Indexes (BMI) will result in fewer joint-related surgeries. ZBH CEO Ivan Tornos claims the opposite is true as lower rates of obesity will actually be a boon for Zimmer considering that damaged cartilage, osteoarthritis and other joint issues are usually irreversible. Moreover, Mr. Tornos says some doctors are uncomfortable operating on patients with BMIs above 30 or 40 (depending on location), so more folks with lower BMIs could mean more Zimmer device usage.

ELECTRIC CARS WILL ARRIVE, EVENTUALLY

Significant hurdles remain for electric vehicles before the transition can be considered a success, but adoption of the technology is picking up and manufacturers like **General Motors (GM)** and **Volkswagen (VWAPY)** have been working on paths to full EV product lines for most of their personal vehicle sub-brands. With deep discounts, government support and plenty of marketing, electric vehicle adoption has been a story of hits and misses. Tesla has found the sweet spot in balancing technology and performance, but its rapid price adjustments to meet sales targets have caused chaos for other EV carmakers.

We continue to believe the attractiveness of combustion vehicles will continue to wane over the coming decades. For many folks, that still leaves room for several conventional or hybrid cars before the eventual switch. Volkswagen made inroads on its EV program following the catastrophic 'Dieselgate' emissions scandal, but has struggled more recently to make its software tick. GM has caught flack from dealers in its demands to switch Cadillac over to an EV-only brand. But both companies remain very profitable, with substantial cash flow from traditional vehicles providing the fuel for their electric aspirations to go along with single-digit P/E ratios.

A star in our portfolios between 2019 and 2022, mining giant **Albemarle (ALB)** shares were thumped in 2023 as lithium prices plunged. Still, we think EV battery demand should surge through the end of the decade with data published by the International Energy Agency predicting that 350 million electric cars will be on the road by 2030, up from 26 million last year. For those looking for inexpensive EV exposure, we think ALB is a great choice, especially as we have seen interest from the major auto makers in entering into longer-term supply contracts and even taking ownership stakes in lithium producers.

DINOSAUR JUICE FOR PORTFOLIOS

The Electric Vehicle boom does not mean conventional energy businesses are dead men walking, especially as more than two thirds of U.S. energy is consumed by a sector other than transportation. The opposite, we think, as lower investment in conventional sources and solid demand should support energy prices for the foreseeable future. Layering on the massive upheaval in the energy markets from the war in Ukraine and frequent geopolitical spats over production levels and challenges finding new low-cost wells, we expect a flattening-demand environment with tightening supply will result in higher prices overall, and therefore enhanced profitability for the likes of exploration and production companies **Civitas Resources (CIVI)** and **EOG Resources (EOG)**, which also boast lucrative variable dividend payouts.

In December's 686th edition of The Prudent Speculator, we added **Chevron (CVX)** as a new recommendation for its meaningful improvement to its leverage profile, action on the M&A front, progress toward decarbonization and willingness to spend billions on new technologies. Shares trade at a steep discount and sport a healthy yield. We also touted **Devon Energy (DVN)**, a Texas-based oil & gas exploration & production company with exposure in the Permian Basin. Shares have been beaten down and the valuation is inexpensive, while management has actively repurchased stock and has been supporting a healthy dividend yield.

INTELLIGENT WAYS TO PLAY A.I.

Artificial Intelligence (A.I.) has been all the rage. And it was wild, in our estimation, to watch share prices rapidly rise and fall based on the latest management commentary related to budding A.I. technology. The more the technology was hyped up on calls, the higher prices rose. If A.I. wasn't mentioned, a plunge often followed. Thankfully, the price action has moderated and companies are being evaluated (once again) on their monetizable plans to employ A.I. in their operations.

In many ways, we've found ourselves at the right place at the right time with some A.I. picks, thanks in large part to another theme for the last decade or so, cloud computing. We have long liked companies like **Microsoft (MSFT)**, **Apple (AAPL)**, **Alphabet (GOOG)** and **Meta Platforms (META)**, who are scaling up their A.I. offerings with plans to generate additional revenue. We believe smaller-company names like power management concern **Eaton (ETN)** and data center REIT **Digital Realty (DLR)** also stand to benefit from widespread A.I. adoption.

Chipmaking giant **Intel (INTC)** has been somewhat left behind in the A.I. discussion, but shares soared more than 70% from January through November, after quarterly check-ins showed that CEO Pat Gelsinger & Co may have finally reversed fortunes for the former market leader. Happily and in addition to turnaround work, Intel's roadmap includes new chips specifically designed for A.I. and Nvidia has publicly stated that Intel is in the running to produce future generations of Nvidia graphics chips (GPU), which would diversify the company's manufacturing exposure and improve GPU supplies. And speaking of manufacturing, we also like semiconductor capital equipment makers **Lam Research (LRCX)** and **Kulicke & Soffa (KLIC)**.

With Artificial Intelligence technology still in its infancy and some of the initial investor hoopla subsiding, we think long-term-oriented investors should review Tech company opportunities carefully for inclusion in their broadly diversified portfolios. There are deals to be had, even as monetization of the technology with consistency will come further down the road and there are likely to be bumps along the way, resulting in a strong preference to spread the exposure over several stocks, rather than larger stakes in one or two.

SMALL COMPANY, BIG POTENTIAL

Small capitalization stocks (defined by Russell/FTSE as the smallest 2,000 companies in the broad-market Russell 3000 index) of the Value variety outpaced their Growth counterparts by 12 percentage points in 2022, though the latter has won the performance derby so far in 2023 by a similar score. Though small-cap Value stocks got whacked particularly hard in the Bear Market that occurred at the beginning of the pandemic, they have outpaced Growth stocks by a wide margin (more than 45 percentage points as of early December) from the low point on March 23, 2020. While some of the valuation disparity has gone away thanks to strong Value stock returns, we think significant appreciation potential still exists in this corner of the stock market.

Our all-cap Value flagship strategies include small and mid-cap names, but we also offer our asset management and wealth management clients a managed account strategy that specifically caters to Small-and-Mid-Cap Dividend (SMiD) stocks. The forward P/E ratio on the SMiD portfolio is near 11, compared with 21 for the Russell 1000 index and 16 for the reasonably priced Russell 1000 Value index.

Considering our SMiD strategy, several names we highlight for 2024 and beyond are logistic services provider **World Kinect (WKC)**, food producer **Fresh Del Monte (FDP)**, semiconductor capital equipment manufacturer **MKS Instruments (MKSI)**, metal machinery controller maker **Hurco Companies (HURC)**, regional bank **Western Alliance (WAL)**, medical device maker **Utah Medical Products (UTMD)** and furniture maker **Ethan Allen (ETD)**.

ENHANCING EXPOSURE BY LEVERAGING THE POWER OF THE WORLD

Although our portfolios are exclusively constructed of equities traded on U.S. exchanges, exposures outside the U.S. are sought after in our efforts to diversify. As we wrote in our Small-Cap Special Report in October, a strong U.S. dollar has been cutting into revenue and profitability figures for larger U.S.-based companies as the value of sales and earnings made in euros, pounds and other currencies are not worth as much after translations back into greenbacks. With persistent inflation also a headwind in many global markets and corporate profit margins for many multinational companies under pressure, the inclusion of exposure to U.S.-centric companies would seem to be of particular interest to investors. As a percentage of 2022 revenue, 31% of aggregate revenue for the Russell 3000 index comes from outside North America, while the figure is 34% for the large-cap Russell 1000 index and 16% for the small-cap Russell 2000 index.

That in mind, we enhance our portfolios with ownership in a variety of foreign companies, from German parcel carrier **DHL Group (DHLGY)**, which derives 75% of revenue outside the Americas, to French drugmaker **Sanofi (SNY)**, which earns 60% of its revenue abroad, has a robust therapeutics pipeline and sports reasonable valuation metrics, to Canadian crop input and service provider **Nutrien (NTR)**, which is impacted by developments in the global commodities markets.

The operations of **ManpowerGroup (MAN)** are based in the U.S., while 64% of revenue is derived from Europe. The staffing services provider has deftly navigated previous expansions and contractions across the Continent, rewarding shareholders with sizable profits and generous dividends through thick and thin. A swap we made in 2018 for the ailing General Electric, **Siemens AG (SIEGY)** earns just 24% of its revenue in North America. The industrial conglomerate stands to benefit from a global rotation to cleaner technologies, leading to healthy earnings growth and supporting a solid annual dividend.

CLOSING

Those that have been reading these periodic Outlooks should not be surprised to see that our themes are little changed. After all, we are buying our undervalued stocks for their three-to-five-year or longer potential, with the intention of holding them through a business cycle or two. We think the market is offering those with long-term time horizons substantial opportunity as evidenced by the litany of names mentioned above, while most offer generous dividend payments, with that income helping investors better navigate the inevitable volatility of the share prices.

Of course, one must still construct a diversified portfolio of these stocks, so we offer the reminder that we have wealth and asset management services available. After all, we feel inclined to reiterate that the secret to success in investing is not simply to select good stocks, but to not get scared out of them.

Vannevar Bush said, "Fear cannot be banished, but it can be calm and without panic; it can be mitigated by reason and evaluation," so for our newsletter subscribers and managed account clients, we make good use of our nerves of steel by offering extensive written perspective each week on the goings on in the equity markets. Indeed, we have made money over the years from our stock holding as well as our stock picking.

PARTNER WITH US

For more than 46 years, we have collaborated with our clients in their investment decision making process as they pursue their long-term financial goals. We are committed to keeping your goals, concerns and attitude about investing at the heart of your plan. If you're ready to experience our personalized investment approach and exceptional client service, contact Jason R. Clark, CFA at 949.424.1013 or jclark@kovitz.com.

DISCLOSURES

All returns are geometric average unless otherwise stated. The geometric average is calculated using the mean of a set of products that takes into account the effects of compounding.

The federal funds rate is the rate banks charge on loans to each other.

The factor-based (book value-to-price) portfolio data is from Eugene F. Fama and Kenneth R. French. The dataset is broken into four groups: large value, large growth, small value and small growth. The aggregate Value and Growth portfolios are monthly averages of the two returns.

The Standard & Poors 500 index (S&P 500) is a broad stock market index based on the market capitalizations of the largest 500 companies listed in the U.S. 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. The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index. The S&P 500 Value Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Value Index.

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.

The Russell 3000 Index is composed of 3000 large U.S. companies, as determined by market capitalization. This portfolio of Securities represents approximately 98% of the investable U.S. equity market. The Russell 3000 Index is comprised of stocks within the Russell 1000 and the Russell 2000 Indices. Russell 3000 Growth Index measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI ACWI Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31 1987. It includes both emerging and developed world markets. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ US Real Estate Index represents REITs & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies. The index is a subset of the Dow Jones U.S. Index, which covers 95% of U.S. securities based on float-adjusted market capitalization. The S&P GSCI Total Return Index in USD is widely recognized as the leading measure of general commodity price movements and inflation in the world economy. Index is calculated primarily on a world production weighted basis, comprised of the principal physical commodities futures contracts.

From 1927 to present, we utilized the dividend-weighted portfolio data from Eugene F. Fama and Kenneth R. French. The dataset is broken into five groups: non-dividend paying, top 30% of dividend payers, middle 40% of dividend payers, bottom 30% of dividend payers and all dividend payers (weighted 30% of top dividend payers, 40% of middle dividend payers and 30% of low dividend payers).

For additional information about subscribing to the *The Prudent Speculator* newsletter, please call Phil Edwards at 800.258.7786 or email pedwards@kovitz.com.

For more details about our wealth management and asset management services, kindly reach out to:

Jason R. Clark, CFA

Principal, Portfolio Manager

949.424.1013

jclark@kovitz.com