

## MARKET COMMENTARY MONDAY, MAY 21, 2018

May 21, 2018

### EXECUTIVE SUMMARY

*MoneyShow Las Vegas* – Buckingham Perspective

Winners Win More Than Losers Lose – 37% of Picks Show No Capital Appreciation

Miracle of Compounding – Much Better to Try to Grow Wealthy Slowly

10-Year Treasury Cracks 3% – Stocks Hold Up Well

Econ Data – Good News is Not Bad

Stock Buybacks – Record Repurchases in Q1

*MoneyShow* Selections – 30 Undervalued Bargains

Target Prices – Updated Listing Posted to [theprudent-speculator.com](http://theprudent-speculator.com)

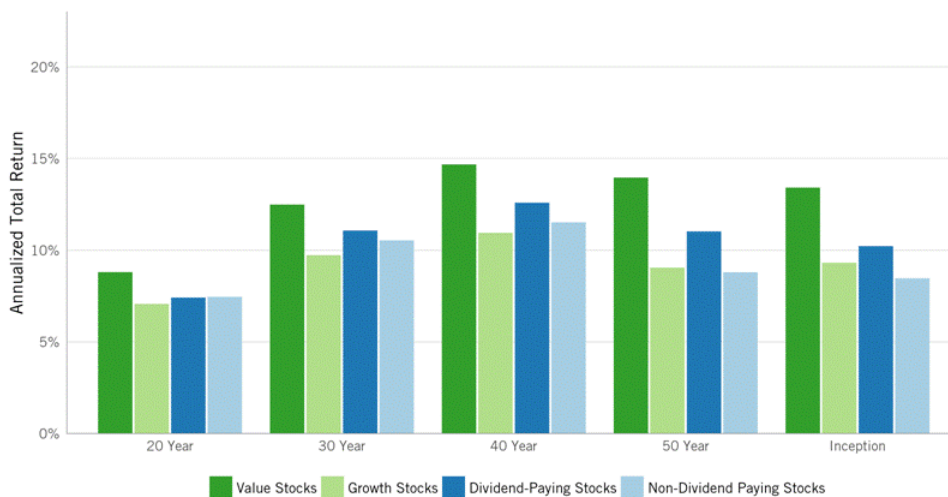
Stock News – Updates on HFC, SYMC DE, WMT, CSCO & AZSEY

### Market Review

Somehow, your Editor's voice managed to survive his three-hour *Value Investing 101a and 101b* paid workshop at the *MoneyShow Las Vegas* last week and it was nice to see many familiar faces as well as to converse with existing and new subscribers. Of course, while my main standing-room-only *Value of Dividends* talk was well attended,...



The historical data freely available from Professors Eugene F. Fama and Kenneth R. French ([http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data\\_library.html](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)), show that Value and Dividend Payers outperform over the long term.



As of 03.31.18. Value stocks are the highest 30% of Book Equity to Market Equity (BE/ME). Growth stocks are the lowest 30% of Book Equity to Market Equity (BE/ME). Common inception for the portfolios is 12.31.27. Value-weighted portfolios. SOURCE: AFAM Capital using data from Professors Eugene F. Fama and Kenneth R. French

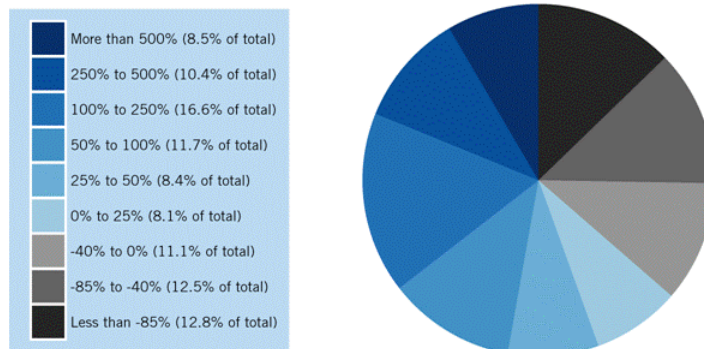
...I was actually surprised that more folks were not interested in the investment philosophy and stock picks from the nation's top-performing long-term publication.

'Twas ever thus, as our founder Al Frank would say as the *MoneyShows* attract a diverse crowd with many folks looking to strike it rich via the latest cannabis investment or with a foolproof trading system. And, on that latter subject, I actually had a query after my talk about a fellow who evidently claimed never to have had a losing trade, which naturally begged the question of why he was pounding the pavement in Sin City. And, for only \$99.95, he'll share his incredible trading tips with anyone!

To be sure, one must be careful to throw stones when he dwells in a glass house, but we do find it fascinating that *The Prudent Speculator* has generated the best long-term returns of any newsletter tracked by *The Hulbert Financial Digest*, yet 37% or so of our recommendations have not proven to be profitable on a capital appreciation basis. Yes, when dividends are included, our "success" rate improves mightily, but the key to our returns has been that the winners win more than the losers lose...and not that every pick is a winner.

 THE PRUDENT SPECULATOR  
TPS Recommended Stock Distribution

Obviously, we would prefer that all of our picks pan out, but a 63% success (profitable) rate has produced a stellar 17%+ average annualized total return for each of 1,875+ recommendations dating back to 1977.



As of 01.31.18. Unannualized total returns between open and close dates. For currently open stocks the latest closing price was used to calculate returns. Gain and loss figures do not include regular dividends or the impact of reinvested dividends. SOURCE: Al Frank

Also, it is important to note that there really are no short-cuts on the road to achieving long-term investment success. As Warren Buffett states, "No matter

how great the talent or effort, some things just take time. You can't produce a baby in one month by getting nine women pregnant." Sadly, it is often too difficult for investors to wait nine months, much less the five or more years that has been our average holding period, with many seemingly forgetting about the Miracle of Compounding,...

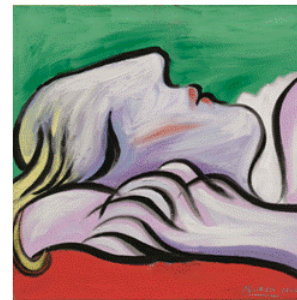
**AFAM CAPITAL** THE PRUDENT SPECULATOR  
Miracle of Compounding: *Le Repos*

The latest auction of masterpieces at Sotheby's saw Modigliani's 1917 painting, *Nu Couché (Sur Le Côté Gauche)*, fetch \$157.2 million, while Pablo Picasso's *Le Repos* went for \$36.9 million. The sale of the latter for the Irish billionaire who bought the painting in 2000 for \$7.9 million resulted in a massive 466% gain...or 9.2% annualized over 17.5 years.

**LONG-TERM RETURNS**

	Annualized Return	Standard Deviation
Value Stocks	13.4%	26.0%
Growth Stocks	9.5%	21.4%
Dividend Paying Stocks	10.6%	18.1%
Non-Dividend Paying Stocks	8.8%	29.6%
Long-Term Corporate Bonds	6.0%	7.5%
Long-Term Gov't Bonds	5.4%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.4%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 02.28.18. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. 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. Long term corporate bonds represented by the Ibbotson Associates S&P 500 Total Return index. Long term government bonds represented by the Ibbotson Associates S&P 500 LT Gov't Total Return index. Intermediate term government bonds represented by the Ibbotson Associates S&P 500 IT Gov't Total Return index. Treasury bills represented by the Ibbotson Associates S&P 500 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates S&P 500 Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates



*Le Repos* – Pablo Picasso 1932  
Bought: \$7.9 million November 2000  
Sold : \$36.9 million May 2018  
Gain of 466% in 17.5 Years  
Annualized Return = 9.2%

6

...not to mention the timeless advice of Al Frank: “We think of ourselves as partners in great corporations, growing in wealth as they prevail, rather than traders of pieces of paper.”

Indeed, thinking about the stocks we hold and recommend as ownership, albeit very small, in actual businesses allows us to look at recent news on the economy with an optimistic lens, even as the yield on the 10-Year Treasury broke through the supposedly scary 3% level last week (our portfolios actually gained ground over the five trading days),...



AFAM  
CAPITAL

## THE PRUDENT SPECULATOR Rising Rates are Bad for Stocks?

The 10-Year U.S. Treasury yield pushed through the 3% level last week, up from 1.36% on July 8, 2016. Believe it or not, the S&P 500 has soared more than 27% (not counting dividends) from 2130 over the last 22+ months, despite the a massive jump in the 10-Year yield over that span.

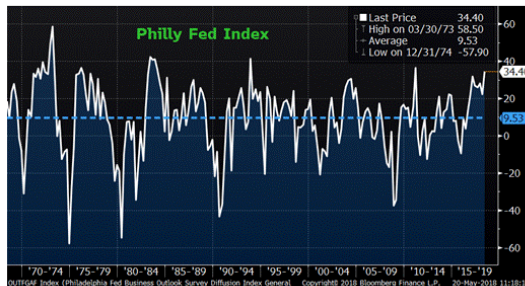


...thanks in large part to upbeat data on the strength of the U.S. economy,...



AFAM  
CAPITAL

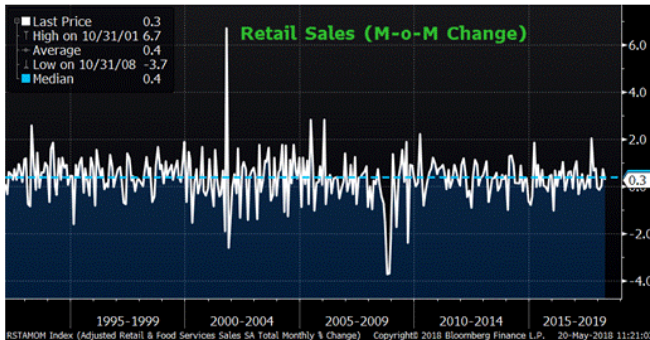
## THE PRUDENT SPECULATOR Healthy Economic Numbers



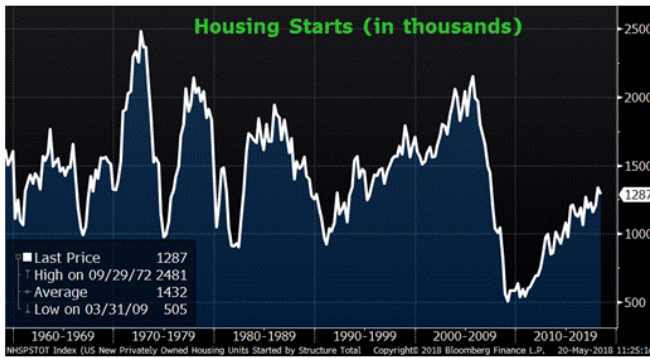
Though many think economic growth will ease later in the year, the forward-looking Index of Leading Economic Indicators inched up 0.4% in April, nicely above its historic average. Meanwhile, the important measure of manufacturing activity in the Philadelphia region blew away expectations, jumping to a May reading of 34.4, well above the historical norm, while the new orders component hit a 45-year high.

...even as other statistics suggested that business conditions are hardly overheating.

**AFAM CAPITAL** THE PRUDENT SPECULATOR  
Solid, but not Great Consumer Data



While the growth in retail sales for April was a respectable 0.3%, in line with projections, and auto sales inched up another 0.1% from a red-hot March reading, consumers seem to be holding their pocketbooks a little tighter. Homebuilders are also a little more cautious as evidenced by a weaker-than-expected, but still post-Financial-Crisis-strong, 1.287 million unit figure for the April Housing Starts tally.



Of course, a healthier economy, along with the benefits of the Tax Cuts and Jobs Act, has added to the enthusiasm in executive suites across Corporate America, with management teams stepping up efforts to share the wealth with their stockholders,...



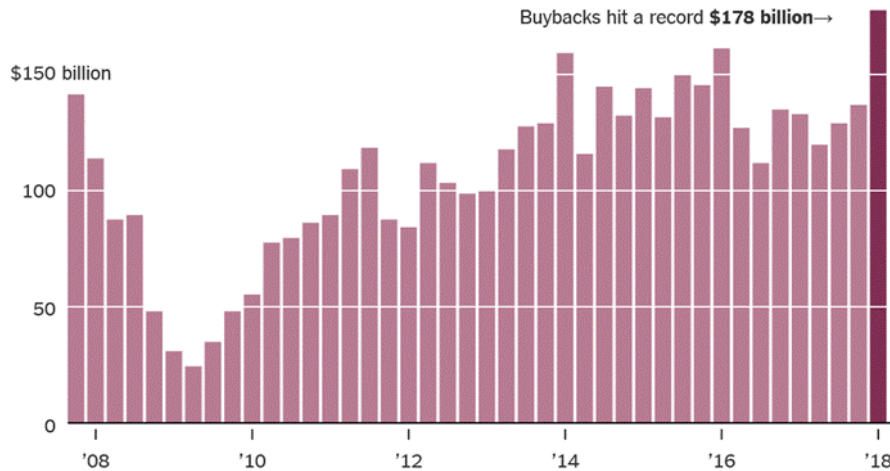
AFAM  
CAPITAL

## THE PRUDENT SPECULATOR

### Corporate America Betting on Business

#### Booming Buybacks

Flush with cash from the tax overhaul, companies in the Standard & Poor's 500-stock index increased repurchases of their own shares by more than 40 percent in the first quarter, compared with the previous year.



By The New York Times | Source: S.&P. Dow Jones Indices

While investors have continued to pull money out of domestic equity mutual and exchange traded funds, and shovel dollars into bond funds, Corporate America has been busy buying back stock at record levels.

...which merely adds to our faith in the long-term prospects of our broadly diversified portfolios of undervalued stocks. And, with investor sentiment far from optimistic, interest rates still very low by historical standards, corporate profits poised to enjoy significant growth this year and next, dividend payouts rising, the global economies showing modest to moderate growth and equity valuations far more reasonable after this year's churning, we see plenty of reasons to remain positive on the U.S. and global equity markets.

And, we did put together a special report of stocks for the *MoneyShow Las Vegas*, with each of the names that made the 30-member list having a dividend yield of at least 2%...



AFAM  
CAPITAL

## THE PRUDENT SPECULATOR Research Team Selections Page 1

Keeping in mind that we generally love all of our children equally, our research team did its best to narrow our 100+ equity holdings in a Special Report prepared for *MoneyShow Las Vegas 2018* attendees.

### THE MONEYSHOW LAS VEGAS 2018

Sector	Ticker	Company	Price	Target Price	EPS	Sales	TBV <sup>1</sup>	EV/ EBITDA <sup>2</sup>	FCF Yield <sup>3</sup>	Debt/ TE <sup>4</sup>	Div Yield	Mkt Cap
Insurance	ALL	Allstate	\$94.05	\$114.04	11.7	nmf	1.8	nmf	nmf	nmf	2.0%	33,058
Pharma, Biotech	AMGN	Amgen	\$166.39	\$222.17	12.9	4.8	nmf	9.4	9.0	nmf	3.2%	110,101
Technology Hardware	BHE	Benchmark Electronics	\$26.70	\$35.97	16.0	0.5	1.3	6.0	2.1	20%	2.2%	1,270
Media	CMCSA	Comcast	\$31.01	\$52.68	14.4	1.6	nmf	7.3	8.1	nmf	2.5%	142,697
Capital Goods	CMI	Cummins Inc	\$143.55	\$199.11	12.4	1.1	4.4	8.6	5.4	29%	3.0%	23,653
Health Care Services	CVS	CVS Health	\$62.27	\$128.08	10.0	0.3	nmf	7.1	7.7	nmf	3.2%	63,307
Transportation	DAL	Delta Air Lines	\$51.79	\$78.13	10.5	0.9	nmf	5.2	7.9	nmf	2.4%	36,329
Real Estate	DLR	Digital Realty Trust	\$104.97	\$131.95	16.8	nmf	4.2	nmf	nmf	nmf	3.8%	22,528
Transportation	DPSGY	Deutsche Post AG	\$43.83	\$60.19	17.2	0.7	53.2	9.1	2.2	609%	2.6%	54,090
Retailing	FL	Foot Locker	\$41.65	\$72.95	10.4	0.6	2.1	5.6	10.4	5%	3.3%	4,920
Technology Hardware	GLW	Corning	\$26.57	\$39.87	16.1	2.2	2.3	10.2	0.1	50%	2.7%	22,062
Automobiles & Components	GM	General Motors	\$36.15	\$54.65	5.7	0.4	1.8	2.4	13.3	244%	4.2%	50,951
Software & Services	IBM	Int'l Business Machines	\$141.99	\$193.35	10.2	1.6	nmf	10.3	10.7	nmf	4.4%	130,342
Banks	ING	ING Groep NV	\$16.61	\$23.89	10.9	nmf	1.1	nmf	nmf	nmf	2.8%	64,580
Materials	IP	International Paper	\$51.17	\$78.29	13.0	0.9	5.5	10.5	1.3	281%	3.7%	21,189

As of 05.03.18. nmf=Not meaningful. <sup>1</sup>Tangible book value. <sup>2</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>3</sup>Free cash flow yield. <sup>4</sup>Tangible equity. SOURCE: AFAM Capital using data from Bloomberg

...and a share price that was in the red for the year on the day they were selected.





AFAM  
CAPITAL

## THE PRUDENT SPECULATOR Research Team Selections Page 2

Keeping in mind that we generally love all of our children equally, our research team did its best to narrow our 100+ equity holdings in a Special Report prepared for *MoneyShow Las Vegas 2018* attendees.

### THE MONEYSHOW LAS VEGAS 2018

Sector	Ticker	Company	Price	Target	Price Multiples			EV/	FCF	Debt/	Div	Mkt Cap
				Price	EPS	Sales	TBV <sup>1</sup>	EBITDA <sup>2</sup>	Yield <sup>3</sup>	TE <sup>4</sup>	Yield	
Real Estate	KIM	Kimco Realty	\$14.36	\$21.64	9.5	nmf	1.4	nmf	nmf	nmf	7.8%	6,102
Household/Personal Products	KMB	Kimberly-Clark	\$102.35	\$140.80	16.1	1.9	nmf	12.4	6.3	nmf	3.9%	35,754
Professional Services	MAN	ManpowerGroup	\$94.98	\$143.72	12.5	0.3	5.2	7.5	1.5	40%	2.0%	6,283
Consumer Durables	MDC	MDC Holdings	\$31.39	\$48.93	11.3	0.7	1.2	11.7	-5.6	76%	3.8%	1,765
Banks	ONB	Old National Bancorp	\$17.15	\$22.74	14.8	nmf	2.0	nmf	nmf	nmf	3.0%	2,610
Pharma, Biotech	PFE	Pfizer	\$34.76	\$44.95	12.7	3.9	nmf	11.6	7.0	nmf	3.9%	206,922
Insurance	PRU	Prudential Financial	\$97.60	\$140.52	9.0	nmf	0.8	nmf	nmf	nmf	3.7%	41,176
Semiconductors	QCOM	Qualcomm	\$50.31	\$71.65	14.3	3.3	5.4	18.6	5.3	141%	4.9%	74,591
Consumer Services	RCL	Royal Caribbean	\$106.34	\$149.25	13.9	2.6	2.2	11.6	3.6	74%	2.3%	22,517
Capital Goods	SIEGY	Siemens AG	\$64.73	\$92.60	14.2	2.2	16.8	10.3	4.5	501%	2.6%	110,033
Telecom Services	VZ	Verizon Communications	\$47.84	\$63.86	12.1	1.5	nmf	7.1	5.9	nmf	4.9%	197,670
Consumer Durables	WHR	Whirlpool	\$151.74	\$228.70	10.8	0.5	nmf	9.8	2.9	nmf	3.0%	10,742
Food & Staples Retailing	WMT	Walmart	\$86.23	\$110.26	19.6	0.5	4.3	9.5	7.1	55%	2.4%	254,592
Retailing	WSM	Williams-Sonoma	\$48.52	\$74.01	13.3	0.8	3.4	6.2	7.6	25%	3.5%	4,040
Energy	XOM	Exxon Mobil	\$76.54	\$98.03	20.8	1.3	1.7	11.1	4.5	11%	4.3%	324,058

As of 05.03.18. nmf=Not meaningful. <sup>1</sup>Tangible book value. <sup>2</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>3</sup>Free cash flow yield. <sup>4</sup>Tangible equity. SOURCE: AFAM Capital using data from Bloomberg

### Stock Updates

We have posted to theprudent-speculator.com updated Target Prices for all of our recommendations and Jason Clark and Chris Quigley provide updates on 6 of our holdings that were in the news last week...

The shares having gained an additional 27% since our partial sale a month ago to soar past our most recent \$70 Target Price, the Investment Team has had plenty to think about in regard to our remaining **HollyFrontier** (HFC - \$72.96) position. After much internal debate, we have opted to continue to try to ride the refining momentum wave a little longer, as wide crack spreads, rising crude prices and management optimism have all been working in HFC's favor.

**AFAM CAPITAL** THE PRUDENT SPECULATOR  
HFC – Soaring Crack Spreads

HollyFrontier Corporation Regional Crack Spread Index

**HOLLYFRONTIER**

Crude Charge	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18*
	391,100	429,000	444,000	432,000	375,000	467,000	455,000	461,000	410,400

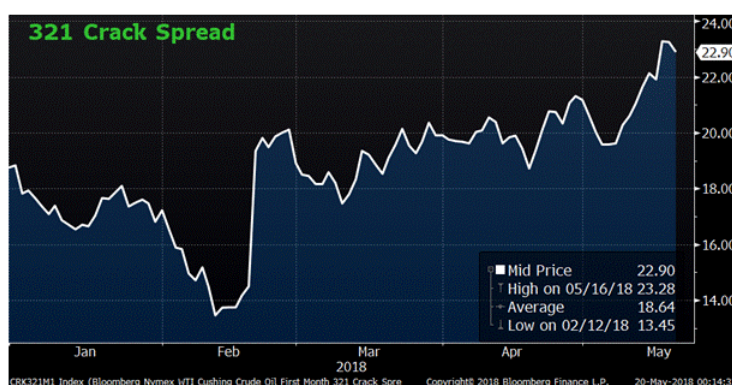
\*Anticipated crude charge based on guidance given on 2/21/18 earnings call

**Refining Index**

Crack	1Q 2018				2Q 2018				3Q 2018				4Q 2018			
	Jan	Feb	Mar	Q18	Apr	May	Jun	2Q18	Jul	Aug	Sep	3Q18	Oct	Nov	Dec	4Q18
MidCon	\$16.05	\$15.32	\$15.50	\$15.56	\$16.36											
Rockies	\$13.94	\$15.49	\$17.55	\$15.66	\$25.55											
Southwest	\$11.51	\$10.69	\$18.90	\$13.70	\$27.32											

Crack	1Q 2017				2Q 2017				3Q 2017				4Q 2017			
	Jan	Feb	Mar	Q17	Apr	May	Jun	2Q17	Jul	Aug	Sep	3Q17	Oct	Nov	Dec	4Q17
MidCon	\$13.30	\$11.75	\$14.12	\$13.06	\$14.86	\$14.56	\$13.40	\$14.27	\$16.94	\$20.25	\$23.06	\$20.08	\$22.28	\$19.29	\$14.43	\$18.67
Rockies	\$14.12	\$15.48	\$20.36	\$16.65	\$21.49	\$21.91	\$23.99	\$22.46	\$22.17	\$27.86	\$28.36	\$26.14	\$26.29	\$22.58	\$15.52	\$21.46
Southwest	\$15.97	\$15.03	\$20.36	\$17.12	\$21.54	\$21.30	\$21.76	\$21.53	\$19.83	\$22.03	\$27.56	\$28.12	\$25.11	\$23.59	\$17.62	\$22.11

Certainly, we respect that the refining biz is very cyclical, but margins are likely to soar in Q2 as the push to \$80 for Brent crude oil has helped push crack spreads sharply higher. This differential between the price of crude and petroleum products extracted from it has jumped from less than \$14 in February to over \$22 today.



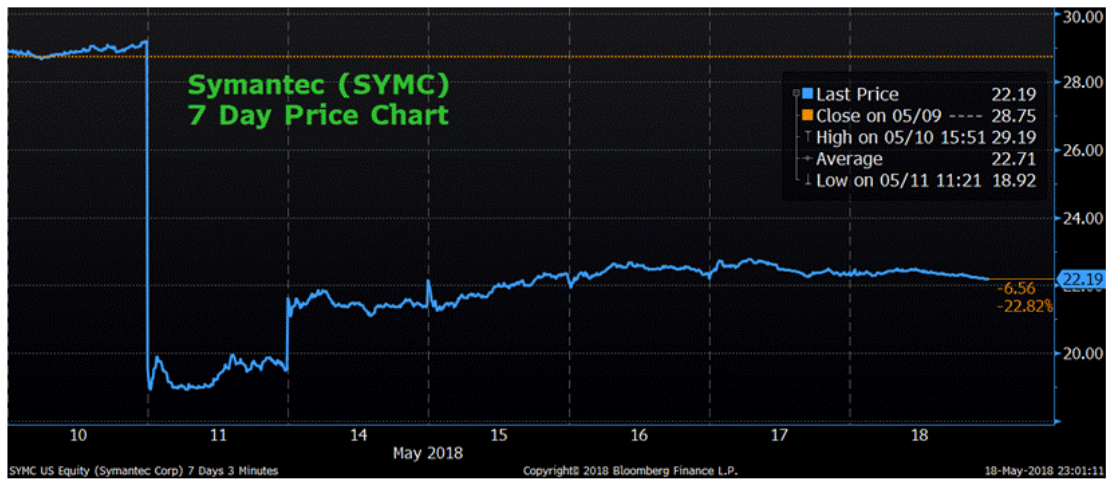
CFO Tom Creery said on the May 2 analyst call, “First quarter consolidated gross margin was \$12.83 produced barrels sold. This was a 70% increase over the \$7.54 recorded in the first quarter of 2017. This increase was driven by improved laid in crude cost in the Mid-Con and Rocky regions and the small refinery exemptions at our Cheyenne Refinery. With widening Permian differentials and consistent discounts for WCS and black wax crude oils, we anticipate continued margins across our refining system in the second quarter.”

We have boosted our Target Price yet again to \$75 as analysts have been ratcheting up their earnings estimates, while the stock now trades for 13.4 times estimated earnings per share and just 0.8 times sales. In addition, the dividend yield is a healthy 1.8%. The company has a sizable amount of long-term debt (\$2.4 billion) at last count, but we like that HFC has a decent balance sheet and has kept operating costs under control. With continued opportunity for improved industry fundamentals and company execution, analysts project Holly to deliver adjusted earnings per share of \$4.82 and \$5.37 in 2018 and 2019, respectively, up from \$2.32 last year. That said, we are contemplating another partial sale if the stock-price momentum starts to wane as \$70 seemed like a very good price at which to take some more dollars off the table, so at a near-\$73 quotation, we are playing with even more house money.

Shares of **Symantec** (SYMC - \$22.19) gained 14% last week, recovering some of the ground lost after the stock plunged on May 11, even as management's update call with investors on Monday touched only briefly on the mysterious internal investigation that contributed mightily to the 33% plunge in the stock on that fateful Friday. Interestingly, the press release and call seemed to allay some investor fears (as was evidenced by the share price gain), though we found the prepared statements to say so much, yet nothing at all.

**AFAM CAPITAL** THE PRUDENT SPECULATOR  
SYMC – Hard Stop-Loss Orders Not for Us

Obviously, bad news can lead to more bad news down the road, but anyone rushing for the exits the morning of May 11 in reaction to the flurry of Wall Street downgrades on Symantec (SYMC) that followed the prior afternoon's issuance of weaker forward earnings guidance and warning of a mysterious internal investigation by the security software provider dumped in the \$19 range. A week later the stock is above \$22.



Via press release, SYMC offered the following statement, “The Audit Committee of the Board of Directors has commenced an internal investigation in connection with concerns raised by a former employee regarding the Company’s public disclosures including commentary on historical financial results, its reporting of certain Non-GAAP measures including those that could impact executive compensation programs, certain forward-looking statements, stock trading plans and retaliation. The Audit Committee has retained independent counsel and other advisors to assist it in its investigation. The Company has voluntarily contacted the Securities and Exchange Commission to advise it that an internal investigation is underway, and the Audit Committee intends to provide additional information to the SEC as the investigation proceeds. The investigation is in its early stages and the Company cannot predict the duration or outcome of the

investigation. The Company's financial results and guidance may be subject to change based on the outcome of the Audit Committee investigation. It is unlikely that the investigation will be completed in time for the Company to file its annual report on Form 10-K for the fiscal year ended March 30, 2018 in a timely manner. At this time, the Company does not anticipate a material adverse impact on its historical financial statements."

As was the case when the news initially came out, there still isn't much we can say about the internal audit, as like everyone else, we are not privy to any information, aside from the fact that the Board's audit committee is looking into "concerns raised by a former employee." The statement says that the Board has retained outside counsel to advise it and alerted the U.S. Securities and Exchange Commission, but we knew all of that last week too. While we are happy that shares recovered from a seemingly emotional plunge, we think the best course at this point is to continue to be patient and use caution not to overreact to situations like this that lack detail and data.

No doubt, Symantec is under our microscope, and we won't hesitate to part with the shares if our thesis changes, but at this point we remain long-term fans of the businesses in which the company operates. We continue to like the additional emphasis on enterprise security and we suspect that cyber-crime and cyber-terrorism will, unfortunately, remain big problems that will constantly remind both enterprise customers and consumers why it's important to have SYMC's cyber protection. Of course, given that we focus heavily on the financials associated with our companies, we are not yet willing to average down on our position until we gain a greater understanding of the accounting issues and until we can again trust the numbers. Our Target Price remains \$29.

Shares of **Deere & Co.** (DE - \$155.25) jumped 8.5% on Friday after the industrial concern posted fiscal Q2 financial results. On the surface, the price jump might have been surprising to some as Deere reported revenue that was essentially in-line with consensus analyst expectations (\$9.7 billion), but adjusted EPS of \$3.14 fell short of forecasts looking for \$3.31. The quarter was negatively impacted by continued production bottlenecks and higher production costs. "John Deere reported another quarter of strong performance helped by a broad-based improvement in market conditions throughout the world and a favorable customer response to our lineup of innovative products," said CEO Samuel R. Allen. "Farm machinery sales in both North and South America are making solid gains and construction equipment sales are continuing to move sharply higher. During the quarter, Deere made significant progress working with its suppliers to ramp up production and ensure that products reach customers in a timely manner. At the same time, we are experiencing higher raw-material and freight costs, which are being addressed through a continued focus on structural cost reduction and future pricing actions."

We think that the positive market reaction to the results was due to the fact that many investors believed that Q2 was going to be messy and that the full-year

fiscal 2018 outlook might be softer. Company equipment sales are now projected to increase by about 30% for fiscal 2018, up from prior guidance of 26% growth, and by about 35% for fiscal Q3 compared with the same period of 2017. The increased forecast was on the back of stronger expectations in Construction and Forestry, and a slight uptick in Ag and Turf. Additionally, we note that Deere did not change its industry outlook by region which was seemingly reassuring following some softer-than-expected industry tractor data. Included in the forecast is a positive foreign-currency translation effect of about 1% for the year and third quarter. Net sales and revenues are expected to increase by about 26% for fiscal 2018 with net income attributable to Deere & Company forecast to be about \$2.3 billion.

Mr. Allen added, “We are encouraged by strengthening demand for our products and believe Deere is well-positioned to capitalize on further growth in the world’s agricultural and construction equipment markets. This illustrates our success developing a more durable business model as well as the impact of investments in new products and businesses. We reaffirm our confidence in the company’s present direction and our belief that Deere remains on track to deliver significant long-term value to customers and investors.”

We have continued to be pleased with Deere’s progress and believe the production bottlenecks will get worked out. We remain optimistic about the long-term potential of global agriculture in general, as the decline of global arable land and population growth should force farmers to be more productive and should continue to drive demand for more efficient farming. That said, while we think that Deere will benefit from continued global demand, we will be paying close attention to input costs, trade conflict impact and regional demand movement. Nevertheless, our Target Price for DE has been hiked to \$185.

Shares of **Walmart** (WMT - \$83.64) ended the week relatively flat after dropping the week prior following the announcement that the discount superstore chain was taking a 77% stake in Flipkart Group, an e-commerce heavyweight in India (we wrote about this in the 5.14.18 MC). This past week, WMT announced its fiscal Q1 2019 financial results that included a top- and bottom-line that exceeded investor expectations. Revenue for the period was \$122.7 billion, versus forecasts of \$120.4 billion. Adjusted EPS for the quarter came in at \$1.14, versus consensus estimates of \$1.12. Online sales growth jumped back to 33%, after falling to “only” 23% last quarter.

Walmart’s U.S. same store comparative sales increased 2.1%, and comp traffic increased 0.8%, which management said was impacted by inclement weather. Net sales at Walmart International were \$30.3 billion, an increase of 11.7%. Excluding currency, net sales were \$28.3 billion, an increase of 4.5%. Eight of eleven markets posted positive comp sales, including WMT’s four largest markets.

“We delivered a solid first quarter, and we’re encouraged by the continued momentum across the business. We’re transforming to better serve customers.

We are changing from within to be faster and more digital, while shaping our portfolio of businesses for the future. Our strong cash flow and balance sheet provide flexibility to do so. I want to thank our associates and our leadership team for the choices they're making, their strong sense of urgency and the actions they're taking. Our people make the difference, and I'm proud to work with them," said CEO Doug McMillon.

While we know that WMT's competitive landscape will only get more intense versus rivals Amazon, Target and numerous others, we think that the steps the company has taken over the last few years to transform itself has it on the right track for long-term success. As we said last week, while the price paid for Flipkart seems on the hefty side now, the potential of the market in India may have us viewing the purchase as a value in the not-so-distant future. We continue to like that WMT generates strong free cash flow and remains committed to returning capital to shareholders via buybacks and dividends (the stock yields 2.5%). While the forward P/E ratio is still above 17 (as NTM EPS forecasts were negatively impacted by the Flipkart investment), we believe that this is very reasonable given the money the firm has been putting into its operations. All things considered, our Target Price remains as we set it last week at \$108.

Communications equipment firm **Cisco Systems** (CSCO - \$43.21) reported earnings per share of \$0.66, versus the \$0.65 estimate in fiscal Q3 2018. CSCO had sales of \$12.46 billion (vs. \$12.44 billion est.). Cisco's share price fell 4%, as the company's results were somehow disappointing in the eyes of many analysts, though management was upbeat. CEO Chuck Robbins said, "We are executing well against the strategy we put in place three years ago. Our innovation pipeline has never been stronger, and we continue to transform our business to reflect the way customers want to consume our technology. We delivered another quarter of accelerating revenue growth of 4%, solid margins, and record non-GAAP EPS up 10%. Our performance was driven by the acceleration of our intent-based networking portfolio, continuing strong customer demand for our innovative solutions, and the increasing value of the network. We also made steady progress in shifting more of our business towards software and subscriptions. This resulted in broad-based strength across our products and geographies."

Mr. Robbins added, "We have solid business momentum. We are confident in our pipeline of innovation and future growth opportunities, and our commitment to driving value for our shareholders remains as strong as ever. This is clearly demonstrated by the fact that we delivered record capital returns this quarter. As part of our commitment to shareholders, we are also very focused on our responsibility as a company to drive impact within our communities through innovation and active engagement. It is not only the right thing to do, but a key requirement for long-term business success. We are deeply committed to our longstanding efforts around sustainability, education, and disaster relief, as well as other key issues such as hunger and homelessness. I could not be prouder of our achievements or more excited about the impact we will have going forward."

CFO Kelly Kramer said, “We repatriated \$67 billion of our offshore funds to the U.S. and ended Q3 with total cash, cash equivalents, and investments of \$54.4 billion, with \$47.5 billion available in the U.S. For Q4, we expect revenue growth to be in the range of 4% to 6% year-over-year. We anticipate the non-GAAP gross margin rate to be in the range of 63% to 64%. The non-GAAP operating margin rate is expected to be in the range of 29.5% to 30.5%. And the non-GAAP tax provision rate is expected to be 21%. Non-GAAP earnings per share is expected to range from \$0.68 to \$0.70.” Analysts had expected an average Q4 EPS of \$0.69, with a range of \$0.66 to \$0.72.



AFAM  
CAPITAL

## THE PRUDENT SPECULATOR CSCO – Massive Shareholder Rewards

### Capital Allocation

\$M	Q3 FY 2017	Q4 FY 2017	Q1 FY 2018	Q2 FY 2018	Q3 FY 2018
Share Repurchases	\$503	\$1,201	\$1,620	\$4,011	\$6,015
Dividends Paid	1,451	1,448	1,436	1,425	1,572
<b>Total</b>	<b>\$1,954</b>	<b>\$2,649</b>	<b>\$3,056</b>	<b>\$5,436</b>	<b>\$7,587</b>

	Q3 FY 2017	Q4 FY 2017	Q1 FY 2018	Q2 FY 2018	Q3 FY 2018
Dividends Per Share	\$0.29	\$0.29	\$0.29	\$0.29	\$0.33

Share Repurchase Program*	Amount Purchased (\$M)	Number of Shares (M)	Avg. Price Per Share
Q3 FY 2018 Purchases	\$6,015	140	\$42.83

\* Approximately \$25.1B remaining authorized funds in repurchase program as of the end of Q3 FY 2018

Cisco repurchased \$6 billion of shares and paid \$1.6 billion out via dividends to shareholders in Q3. We think Cisco’s challenging transformation has put the company on a path to long-term success, and shareholders are beginning to see the benefits of those efforts. We continue to like the strong balance sheet with about \$7 per share in net cash and believe that the stock still trades at a sizable discount with a forward 12-month P/E ratio of 15.5 and a 3.1% dividend yield. Our Target Price has been increased to \$51.

**Allianz SE** (AZSEY - \$22.48) earned \$0.54 per share in Q1 2018 (vs. \$0.49 est.). The insurer reported a 6% decrease in operating profit (€160 million), which was a result of currency adjustments and an accounting 'one-off' (according to management). AZSEY also saw 7% growth in net income due to lower restructuring expenses than last year and a lower tax rate in the U.S. (24% in 2018 vs. 29% in 2017).

CEO Oliver Baete said, "We had a strong quarter and start into the year with good revenue growth. The [quarter's] development was in general pretty solid, and clearly, there is still some work we need to do, but we feel that we are on track to get to our objectives for 2018."

Allianz continues to expect operating profit for 2018 to be €10.6 billion to €11.6 billion with adjusted EPS of €16.90 (or \$2.17 per U.S.-traded AZSEY share). Happily, the expected tax rate for 2018 has dropped to a range of 26% to 28%, depending on the geography of income. Certainly, management is still treading carefully given recent natural disasters and a need to keep a strong balance sheet, remaining more cautious than optimistic for at least the beginning part of 2018. Liking the desire to under-promise and over-deliver, we think the high quality shares are very inexpensive, trading for less than 11 times estimated earnings and with a net dividend yield near 3.1%. Our Target Price for AZSEY has been lifted to \$30.

FOR INFORMATION ON PRIVATE CLIENT MANAGED ACCOUNTS PLEASE CALL 512-354-7041 OR E-MAIL [CCREED@AFAMCAPITAL.COM](mailto:CCREED@AFAMCAPITAL.COM)