RESEARCH BULLETIN May 11, 2021

Nancy Tengler, Chief Investment Officer

Markets at a Glance
Index Prices as of 05/07/2021, Bond Yields as of 05/10/2021

	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
S&P 500	4,232.60	3.74%	12.69%
Dow Jones Industrial	34,777.76	3.98%	13.63%
MSCI World Index	2,979.41	3.41%	10.76%
10-Yr US Treasury Yld	1.5949	-4.25%	74.65%
30-Yr US Treasury Yld	2.3201	-0.56%	41.05%

Source: FactSet and Bloomberg

S&P 500

Source: FactSet

Dow Jones Industrial

Source: FactSet

VALUES AS OF 05/10/2021	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
Crude Oil WTI	$64.56	8.63%	33.06%
Crude Oil Brent	$68.28	7.92%	31.81%
Natural Gas	$2.935	14.56%	15.60%
Gold	$1,839.24 (spot)	6.12%	-3.11%
Silver	$27.44 (spot)	10.56%	3.94%
Copper	$10,420.00	15.54%	34.47%
Platinum	$1,264.64 (spot)	7.69%	17.96%
Palladium	$2,970.39 (spot)	10.86%	21.30%
Corn	$715.00	28.55%	48.88%
Wheat	$732.00	16.00%	16.51%

Source: Bloomberg

The Outlook for Equities

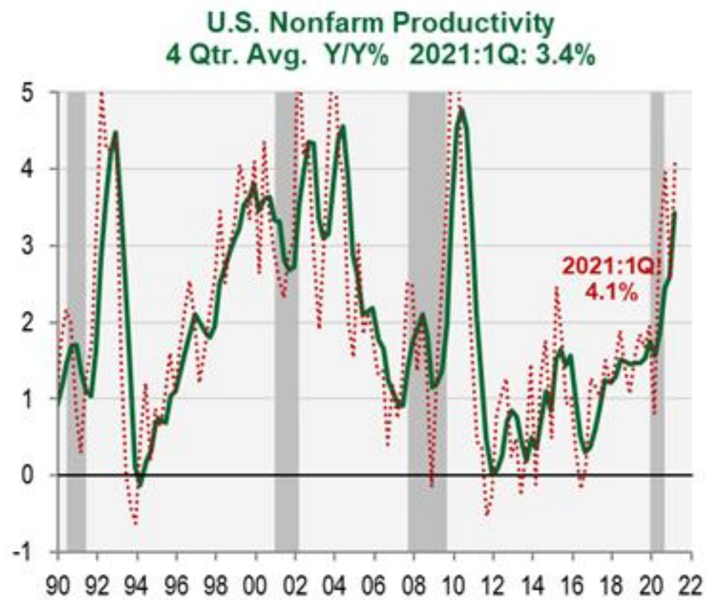
from Nancy Tengler, Portfolio Manager & Chief Investment Officer

Inflation: I understand Chair Powell's argument regarding the expected transitory nature of higher inflation due to increased demand, back-up in the supply chain and low base effects, but due to the chip shortage, the cost of raw materials for electronic goods have escalated. An index measuring the price of inputs for electronics companies in March soared to the highest level recorded in more than two decades of tracking, according to IHS Markit. Goldman Sachs estimates that since semis, for example, are an important component for 12% of GDP, if 169 industries increase prices due to reduced supply, that could boost prices by as much as 3%. This is real and will likely work through the system, but consumer products companies, for example, have already announced price increases.

Wage inflation is the inflation we should be worried about. We know that 1.45MM workers are not looking for work due to COVID concerns. Another 1MM are enjoying the $23/hour unemployment benefits, requiring restaurants and retailers to offer signing bonuses, free college tuition and higher wages. 700K don't have the skills companies are looking for, and 1.2MM over 65 retired after COVID. This, according to Bank of America. And now, Biden has signed an executive order requiring federal contractors to pay a $15 minimum wage, up from $10.95. Beginning January 30, 2022, all government agencies will need to incorporate a $15/hour minimum wage into new contract solicitations, and so it begins.

We are watching the Employment Cost Index ("ECI"), which includes wages, benefits, and adjusts for mix shifts unlike the Average Hourly Earnings ("AHE") measure. With 1MM new jobs expected monthly between now and the end of the year and labor shortfalls, we expect to see upward pressure in the ECI. If capex slows (due to higher taxes and higher interest rates), then we may not see the productivity target we are expecting of 2.0%- 3.0%, negatively affecting earnings, and not providing the backstop to inflation we are expecting. But today's **productivity** numbers are encouraging. Yes, there is some distortion due to economic volatility, but Q1's strong print more than reversed Q4's weakness, which was revised up to -3.8% from -4.2%.

Unit Labor Costs ("ULCs")—though volatile due to the rapidly changing levels of compensation/ AHE (due to shut down and reopening) are actually tame. The official number overstates labor costs due to the volatility in AHEs, but when calculated using the ECI, which adjusts for mix shifts, ULCs look relatively tame. Good for productivity and potential non-inflationary growth, ala the 1990s.



Source: Cornerstone Macro, May 6, 2021

Source: Cornerstone Macro, May 6, 2021

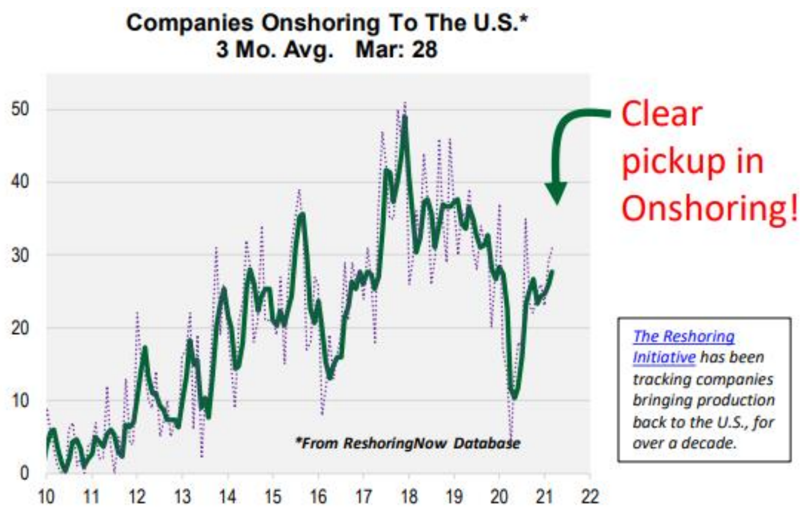
President Biden's proposed corporate tax increases. The increases as proposed will not only depress corporate earnings and capex spending but will also cost jobs. Below is a chart outlining the impact to SPX eps under various implementation scenarios.

S&P Operating EPS						
	Current Law		Tax Hike Over Two Years		Tax Hike Over One Year	
	Level (e)	Y/Y% (e)	Level (e)	Y/Y% (e)	Level (e)	Y/Y% (e)
2021	$ 173.72		$ 173.72		$ 173.72	
2022	$ 200.95	**15.7%**	$ 195.74	**12.7%**	$ 190.57	**9.7%**

Source: Cornerstone Macro, May 5, 2021

On capex and jobs, I think the CEO of JNJ said it best on the most recent earnings call:

"…we've shared a lot of rhetoric about a race to a bottom. I don't know why folks are anxious to have a race to the top in terms of rates either. And I can give you one example in one industry, and that's Johnson & Johnson, where when tax reform was passed in 2017, we committed to increasing our investment in the US by 15% over the upcoming four years versus preceding four years. We are on track to actually invest about 25% more in the US over that four-year period. And that's more than $30 billion."

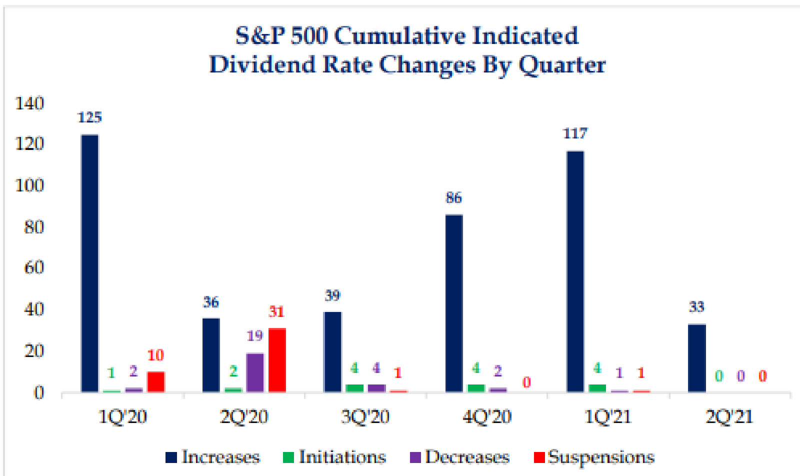


Source: Cornerstone Macro, May 3, 2021

Most of the onshoring/reshoring is coming from China and Japan, and some from Europe. 83 companies have announced already this year; 251 companies announced last year.

We are positioning our client's portfolios in large cap equities barbelled with overweights in technology, consumer discretionary, industrials, materials, and financials. Our non-correlated strategy is focused on the metals and miners, which will drive President Biden's green energy agenda, hedged by oil, and complemented by a focus on block chain technology and the growth in crypto and stablecoins. We also have exposure globally, and focus the income portion in convertible securities. Finally, we are hedging against what we feel is an inevitable correction with puts on the SPY and calls on the VIX.

Dividend Increases: Our valuation discipline, Relative Dividend Yield, identifies periods of over and under valuation for the large cap stocks we hold in the portfolio. But the dividend is also a very reliable indicator of what management and the Board of Directors think about future earnings power. Dividends are established set as a portion of long-term sustainable earnings power for these companies. When management is optimistic about future earnings power, dividends are likely to go up. During the first quarter of 2021, we saw 117 increases in dividends—almost on par with Q1 2020. The second quarter is off to a strong start as well. It is no secret that earnings are experiencing robust growth this year off a wobbly 2020, but it is noteworthy that managements are confident enough about future earnings growth to raise dividends at pre-pandemic levels. This recovery is no flash in the pan.



Source: Strategas, May 5, 2021

China, a looming, potential geopolitical threat. The rhetoric and actions against dissent coming out of Beijing have ratcheted up in recent months. Now the government has turned its attention to American corporations. Companies have noticed and are moving production out of China. This is good news for supply chains and, frankly, national security. To wit: Apple (AAPL) announced they are building a new campus and engineering hub in North Carolina, delivering on the company's promise to add 20,000 jobs in the US by 2026. Foxconn (a Taiwanese company) is planning to move 7-10% of its Chinese production of iPhones to India according to Yardeni Research. Four other competitors are doing the same with Delta Electronics (supplier to Tesla (TSLA) and AAPL), planning to reduce Chinese headcount by 90%. The companies are citing cost reductions—China has actually become an expensive place to do business, not to mention the political perils (just ask TSLA). Ford (F) is spending $185 billion to build a battery lab in the U.S. (lithium ion and solid-state batteries). Last year, F spent $100 billion on another U.S. battery testing lab.

As the cold war with China heats up, we are watching and assessing the implications.

Bonds & Fixed Income

from Jason Weaver, CFA, Head Trader & Portfolio Manager

With our portfolio duration having been very short since our last change in March (1.9) and seeing the resumption of dollar weakness and international growth rebounding, we made an important change to the portfolio. We initiated a 6.5% position in LEMB – the iShares JPM Local Currency Emerging Markets Bond ETF. This holding should pair well with the themes of ongoing commodity price inflation (as exporters), increasing breakeven inflation rates in the US, renewed openness to free trade under the Biden administration, and a weaker dollar. We have funded this by selling a proportionate amount of FLOT - iShares Floating Rate Bond ETF.

For the portfolio as a whole, the effects can be summarized below:

	Before	After	Change
Avg YTM	1.68	1.99	0.31
Avg Effective Duration	1.78	2.12	0.34
Avg Maturity	2.87	3.23	0.36
Avg S&P Rating	AA-	A+	~
Dividend Yield	2.08	2.35	0.27

Convertible Securities

from Stan Rogers, Portfolio Manager

The broader convertible market has had a difficult time of it lately. The weakness in NASDAQ impacted the convert space, especially tech related issues. The choppiness in interest rates and comments surrounding inflation expectations also influenced some weakness in this asset class. Primary market activity has remained subdued during earnings season, but it is expected to pick up later in the quarter.

<u>News/Earnings:</u>

Stanley Black and Decker (SWK) reported Q1 results, and they exceeded expectations on both earnings and sales. The company also raised guidance for FY earnings. The tools and storage segment sales were up 48% versus a year ago as demand from professionals and consumers recovered. The industrials segment grew 11% as the automotive industry improved.

Illumina (ILMN) Q1 revenue and earnings per share were both above consensus. Also, management raised expectations for full year results. Broad-based growth in the core business, especially in clinical, attributed to the impressive results. Management commented on the call that they are still committed to the Grail acquisition, despite some pushback from regulators.

Boston Scientific (BSX) reported a beat for Q1 and raise for Q2. Earnings and sales figures were above estimates, and the company raised guidance for FY21. More importantly, management expressed optimism that elective procedures would be less impacted by COVID during Q2 and become more normalized during the second half of 2021, and that it is committed to growing above its peer group.

Western Digital (WDC) reported a blowout Q3. Earnings and revenue were well above consensus, and the company guided Q4 upward. Flash memory pricing and demand remain robust, as well as the environment for hard disk drives. The company also entered into multi-quarter supply agreements with customers for 18TB drives.

Fortive (FTV) released earnings and sales that were slightly above estimates for Q1 and provided a largely inline guide for Q2 and 2021. The guidance was unchanged as growth-oriented spending increased and some temporary cost cuts declined. The Asia-Pacific region outperformed, and the precision technologies sector was boosted by semiconductor and industrial markets.

Twitter (TWTR), despite positive results from Facebook (FB), Snapchat (SNAP), and Alphabet (GOOGL), reported disappointing numbers. While earnings and revenue were slightly above consensus, and daily average users in line, their Q2 revenue outlook was below expectations. While the stock was weak after the report, many analysts believe the second half of the year could show improvement in ad revenue and the rollout of MAP 2.0. The company also announced the acquisition of Scroll, a subscription service that allows users to read news with an ad-free experience. Also, after the stock weakness, the news hit the take that ARK Investments bought $75 million in TWTR shares, and Elliot Management added an additional $200 million.

Akamai Technologies (AKAM) released Q1 earnings and revenue that were above consensus estimates. The company also guides FY21 above current expectations. Web security and edge products were strong. Security now represents 37% of revenues and is the fastest growing segment within the company.

Hannon Armstrong Sustainable Infrastructure (HASI) Q1 report was positive, as earnings and revenue were above estimates. Management guided EPS CAGR of 7-10% through 2023 with confidence in origination growth in the pipeline for energy efficient and grid-connected solar projects.

KKR & Co. (KKR) reported earnings and revenue that were above projections, as management fees, performance-related earnings, and investment performance all contributed to the beat. Management raised their forecast for 2021 fee-related earnings. Assets under management were up, and the company has been successful in fundraising for new products.

Booking.com (BKNG) released Q1 earnings that were better than estimates, but revenue was just slightly below consensus. Gross bookings were well above expectations. Management indicated that trends were improving in April. US activity was strong, but uncertainty remains for international travel. While near-term results may be uneven, the company is optimistic on global travel as vaccines become more widely available. One interesting note from the call was that the Booking.com app was the most downloaded travel app globally in Q1.

ViacomCBS (VIAC) reported a beat on earnings and revenue Q1, as TV advertising revenue, streaming subscriber growth, and free cash flow results were all strong. Cable and film business content licensing revenue were solid. This is one of the newer names in the portfolio, purchased after the hedge fund Archegos blowup and the stock's fall from lofty levels. These results should help the sentiment surrounding the fundamental story of the company.

Becton Dickinson (BDX) exceeded estimates for Q2 earnings and revenue. Lower operating expenses and tax rate helped the upside. On the call, management announced their intention to spin off the diabetes care business to shareholders later in the year. This segment had approximately $1.1 billion in revenue for 2020 and was only growing at 3% per year. This tax-free spin will allow the parent company to increase research and development in high-growth areas and tuck-in acquisitions.

Synaptics (SYNA) continues its remarkable transformation from a low-margin mobile centric user interface product company to a higher-margin internet-of-things (IoT) semiconductor company. The company reported a beat on Q3 earnings with revenue in line with consensus. But the company guided Q4 revenue higher on expanding margins. IoT and PC design wins should provide an avenue to a new growth phase, including Chromebooks, touch PCs, wireless connectivity, and video interface products.

Transactions:

We initiated a 1.5% position in **Twitter (TWTR)** 0.25% convertible bond. This is an attractive total-return convertible with a mid-70s delta and a 3-year maturity. The company currently has 3 convertible issues outstanding. The 1% matures in September. The 0%, issued back in March during the flurry of richly priced converts, currently has an 84% premium and mid-40s delta (so little equity participation). As the 1% nears maturity, and investors look for exposure with equity participation potential, the 0.25% will be a natural swap, which should help support valuations. While the 0.25% coupon is small, the common does not pay a dividend. Participation rate of +65%/-60% in a +/- 25% move in the common is attractive as well.

Equity Hedging

from David Jeffress., Portfolio Manager

There have been no new purchases in the hedging portfolios for this period. To review our progress to date; we began accumulating options against the SPY ETF at the $400 level and that fund currently trades at $419.00. The VIX, which we began accumulating calls on just below 20.00, now trades at roughly 18.80.

Our next and final options purchase will need to carry us through the end of the quarter, which we consider to be mid-July for options contracts, due to accelerating time-decay. Our intention is to make the final options trade within the next two weeks.

Global Revolution

from Jonathan Berkowitz., Securities Analyst

As the 46th President of the United States, Joe Biden is having a huge impact on another significant number 46. Atomic number 46! Also, the numerical value of the Hebrew word *haia*, meaning "the beast". That is what Palladium has been since Joe Biden was elected President. The precious metal has gained 19.59% YTD due to the increased focus on planetary decarbonization.

So, what is Palladium and why do we care? Palladium is a shiny, silvery metal used in many types of manufacturing processes, particularly for electronics and industrial products. About 85% of Palladium ends up in the exhaust system in cars, where it helps turns toxic pollutants into less-harmful carbon dioxide and water vapor. Almost all the world class automobile manufacturers like Ford, Volkswagen, Rover and Renault make use of Palladium for autocatalysis. Within a short span of time, Palladium has exhibited an important role in the electric car manufacturing technology and is expected to change the future by creating a revolution in the automobile industry by rendering low-cost pollution free vehicles to the market.

Dividend Growth

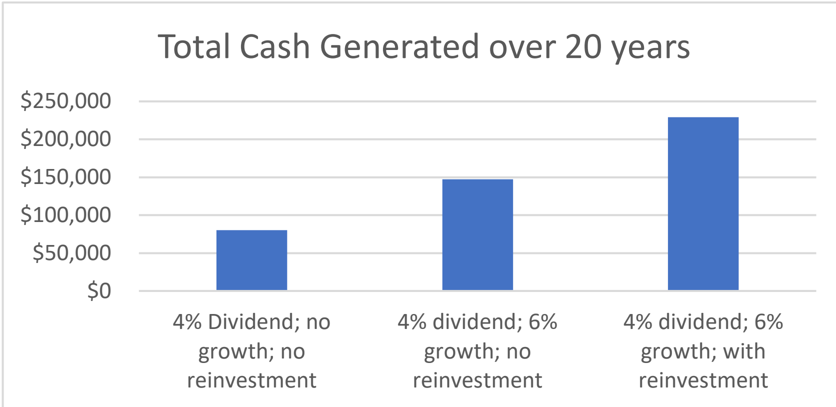
from Steve Shepich., Portfolio Manager

One of the key reasons we believe a dividend growth investment strategy is an attractive option for income investors is the long-term impact that both dividend growth and dividend reinvestment can have on long-term cash return generation. We refer the combination of these two as "Double Compounding".

To illustrate, let us assume we invest $100,000 into a business that pays a 4% dividend once a year. If the business has no growth and we collect our 4% every year, our investment would generate $80,000 ($100,000*4%*20) in cash return over a 20 year period.

Now let us assume that the business is growing at 6% annually and the dividend increases at the same rate. At the end of the first year, we receive our first dividend payment of $4,000 ($100,000*4%). Then, in year two, we would collect $4,240 ($100,000*4%*1.06) and so on. Thanks to the power of compounding, the total cash return generated over 20 years would increase to $147,142.

The second opportunity for compounding is dividend reinvestment. Let us assume that we can reinvest our dividend back into the business at the end of each year. Going back to our example, after the first year our $4,000 dividend is reinvested back into the business. Our ownership position increases, which will result in a higher dividend in year two, and so on. At the end of 20 years, the total cash return generated would increase to $229,100. This is the power of double compounding.



Please note that the returns above only refer to the cash return generated from the dividend. Our ownership steak in the company would also benefit from double compounding. Assuming a consistent valuation (the investment appreciates at the same rate the business grows), 6% business growth and reinvested dividends, we would generate an additional $343,650 in capital appreciation from our illustration.

This illustration is hypothetical, and does not take into account any fees, expenses, or taxes associated with an actual investment. If these costs had been taken into consideration, results would have been lower. Actual performance would be influenced by a variety of other factors including market condition. Stock and bonds are subject to a variety of risks.

Nancy Tengler's Recent USA Today Articles

Volatility is Not a Bubble — Here's Why the Market Will Likely Continue to Be Bullish (Feb 24)
Joining a Reddit Revolution is Not an Investment Plan (Jan 28)
As You Reshuffle Your 401(k) for the Biden Administration, Look Across the Pond (Jan 24)

Nancy Tengler's Recent Media Appearances

What Transports Earnings Could Reveal About the Economy (CNBC April 19)
What's Next For Bitcoin (CNBC April 19)
Here's How Much This Strategist Expects the Market To Correct (CNN Business, April 7)
Biden Admin Sued By 13 States Over Stimulus Tax Rule (Fox Business, April 6)
We're Taking a Wait-And-See Approach, Says Veritas' Gregory Branch (CNBC, April 5)
Disney Is A Great, Diversified Way to Play The Reopening, Tengler Says (CNBC, April 5)
We've Recently Been Net Sellers of Deep Cyclicals, Says Nancy Tengler (CNBC, April 5)
Investors' Second-Quarter Playbook (CNBC, April 1)
We're Not Paying Attention to What Higher Tax Rates May Do (CNBC, March 31)
Alphabet Is A 'Recovery Dark Horse,' Says Morgan Stanley.(CNBC, March 25)
Growth Is Going to Be Everywhere in 2021 (Yahoo! Finance, March 23)
Bloomberg Markets: The Close Digital Full Show (Bloomberg Markets, March 22)
How Will the Fed Decision and Tax Hikes Impact the Market? (Fox Business, March 19)

Completed Analysis Item(s) for Portfolio Companies

**To request any company analyses, please email info@laffertengler.com.*

Broadcom Inc. (AVGO)
FedEx (FDX)
International Flavors & Fragrances, Inc. (IFF)
Palo Alto Networks, Inc. (PANW)
Morgan Stanley (MS)
Boeing (BA)
Goldman Sachs (GS)
Visa (V)
AbbVie (ABBV)
Tiffany & Co. (TIF)
Walt Disney Company (DIS)
International Paper Co. (IP)
Salesforce.com (CRM)
Micron (MU)
Pfizer (PFE)
AT&T (T)
Boston Scientific Corp. (BSX)
Western Digital Corp. (WDC)
Fortive Corp. (FTV)
Pinnacle West Capital (PNW)
Danaher Corporation (DHR)
Southwest Airlines Co. (LUV)
QUALCOMM Inc. (QCOM)
Dominion Energy (D)
Booking.com (BKNG)
Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI)
Becton, Dickinson and Co. (BDX)
American Tower Corp. (AMT)
Illinois Tool Works (ITW)
Square, Inc. Class A (SQ)
Ecolab Inc. (ECL)
Snap-on Incorporated (SNA)
Prudential Financial, Inc. (PRU)
ServiceNow, Inc. (NOW)
Facebook, Inc. (FB)
Home Depot, Inc. (HD)
Apple Computer, Inc. (AAPL)
Walmart Inc. (WMT)
Starbucks Corporation (SBUX)
Microsoft Corp. (MSFT)
Johnson & Johnson (JNJ)
Cisco Systems, Inc. (CSCO)
Amgen Inc. (AMGN)
JPMorgan Chase & Co. (JPM)
Texas Instruments Inc. (TXN)
United Parcel Service, Inc. (UPS)
McDonald’s Corporation (MCD)
PepsiCo, Inc. (PEP)
Medtronic Plc (MDT)
Dominion Energy (D)
PNC Financial Services Group, Inc. (PNC)
BlackRock, Inc. (BLK)
Roku, Inc. (ROKU)
Chevron Corporation (CVX)
Lam Research Corp. (LCRX)
II-VI Incorporated (IIVI)
3M Company (MMM)
Roku, Inc. (ROKU)
Coca-Cola Company (KO)
Comcast Corporation (CMCSA)
D.R. Horton, Inc. (DHI)
Fastenal Company (FAST)
Intel Corporation (INTC)
Procter & Gamble Company (PG)
T. Rowe Price Group (TROW)
Raytheon Tech. Corp. (RTX)
Chipotle Mexican Grill (CMG)
Target Corporation (TGT)
Alphabet Inc. Class A (GOOGL)
American Express Co. (AXP)
Honeywell Int’l Inc. (HON)
Lowe’s Companies, Inc. (LOW)
Splunk Inc. (SPLK)
Ulta Beauty Inc. (ULTA)
Amazon.com Inc. (AMZN)
Emerson Electric Co. (EMR)
BCE Inc. (BCE)
Tyson Foods (TSN)
Magellan Mid. Partners (MMP)

Lululemon Athletica Inc. (LULU)
CVS Healthcare Corp. (CVS)
Taiwan Semi. Manuf. Co. (TSM)
Truist Financial Corp. (TFC)
Lockheed Martin Corp. (LMT)
BHP Group (ADR) (BHP)
Lumentum Holdings, Inc. (LITE)
NVR, Inc. (NVR)
Twitter, Inc. (TWTR)
Freeport-McMoRan, Inc. (FCX)
Dominion Energy, Inc. (D)
Trimble Inc. (TRMB)
Littelfuse, Inc. (LFUS)
Jacobs Engineering Group (J)
Air Prod. and Chemicals (APD)
Steel Dynamics Inc. (STLD)
BorgWarner, Inc. (BWA)
Lear Corporation (LEA)
Exelon Corporation (EXC)
L3Harris (LHX)
Corning Inc. (GLW)
Diamondback Energy (FANG)
EOG Resources, Inc. (EOG)
Splunk, Inc (SPLK) – convertible
Oracle Corporation (ORCL)
Unilever (UL)
AES Corp. (AES) – convertible
Martin Marietta Materials, Inc. (MLM)
Americold Realty Trust (COLD)
Xylem Inc. (XYL)
Quest Diagnostics Incorporated (DGX)
Viacom CBS (convertible)
Winnebago Industries Inc. (WGO)
Twitter Inc. (TWTR) - convertible
Enbridge (ENB)
Vertex Pharmaceuticals (VRTX)

Strategy Changes

Changes to Equity Income

COMPANY NAME	TICKER	BUY/SELL	CURRENT ALLOCATION	NEW ALLOCATION
AbbVie Inc.	ABBV	BUY	3.34%	3.50%
Amgen Inc.	AMGN	SELL	3.23%	1.50%
Corning Inc.	GLW	BUY	1.25%	2.00%
EOG Resources Inc.	EOG	BUY	1.31%	2.00%
Raytheon Technologies Corp.	RTX	BUY	1.60%	2.00%
Target Corp.	TGT	SELL	3.87%	3.50%

Changes to Equity Growth

COMPANY NAME	TICKER	BUY/SELL	CURRENT ALLOCATION	NEW ALLOCATION
AbbVie Inc.	ABBV	BUY	2.61%	3.00%
Amgen, Inc.	AMGN	SELL	2.97%	0.00%
Freeport-McMoRan	FCX	BUY	1.04%	1.50%
Xylem Inc.	XYL	BUY	1.02%	2.00%
Jacobs Engineering Group Inc.	J	BUY	1.51%	2.00%

Changes to Convertibles

COMPANY NAME	TICKER	BUY/SELL	CURRENT ALLOCATION	NEW ALLOCATION
Twitter 0.25%	TWTR	Buy	0.00%	1.60%

Changes to Global Revolution

COMPANY NAME	TICKER	BUY/SELL	CURRENT ALLOCATION	NEW ALLOCATION
Aberdeen Standard Phys PalladiumShrs ETF	PALL	Sell	15.1965%	12.50%
Amplify Transformational Data Sharing ETF	BLOK	Buy	11.2845%	12.50%
Vanguard Energy Index Fund	VDE	Buy	11.0869%	12.50%

Changes to Fixed Income ETF

COMPANY NAME	TICKER	BUY/SELL	CURRENT ALLOCATION	NEW ALLOCATION
iShares JPM Local Ccy. Emerging Market Bond ETF	LEMB	BUY	0.00%	6.5%
iShares Floating Rate Corp. Bond ETF	FLOT	SELL	16.5%	10.5%

The Laffer Tengler Investments Discipline

Discipline is key to sustainable long-term total returns:

- At Laffer Tengler Investments we use two, time-proven stock valuation metrics (both pioneered by our team) that are consistent and robust indicators of value: Relative Dividend Yield (RDY) and Relative-Price-to-Sales Ratio (RPSR).

- Why not use earnings like almost everyone else? Because earnings are often an unreliable indicator of value. In May of 2016, I published the following:

Earnings reported by corporations have always been subject to the vagaries of accounting gimmickry. You don't have to be a novice to scratch your head at the way managements (or governments for that matter!) account for various items.

A recent case in point: The Wall Street Journal (Thursday, February 25, 2016) reported that according to FactSet, pro forma earnings for S&P 500 companies rose 0.4% in 2015. Using generally accepted accounting principles or GAAP, earnings per share actually fell 12.7% in 2015 (this according to S&P Dow Jones Indices). The author's point is that according to GAAP earnings, investors are paying a great deal more for stocks than they think. The price-to-earnings ratio (P/E) on pro forma earnings (which is the most commonly accepted method) is 17x 2015 earnings. But when GAAP earnings are considered, the P/E jumps to more than 21x.

It is important to remember that the P/E ratio for any given stock is only as good as the price input (a fact) and the reported earnings input (apparently not a fact at all).

- **RDY** measures the yield of a particular stock compared to the yield on the S&P 500 and does so over long periods of time. Since a stock's relative yield and relative price are inverse, we can generally conclude that as a stock's yield is rising, its price is declining—similar to a bond. Consequently, a rising RDY provides an opportunity for investors to at least consider an underperforming, cheaply valued stock for purchase.

- Company managements and boards of directors pay the dividend out of free cash flow, not earnings. In maturing U.S. companies these seasoned professionals often operate within a "dividend paying culture" and set the dividend as a portion of long-term, sustainable real earnings power because management teams are loathed to cut dividends.

- The relative nature of the RDY metric is also important because it measures the relative attractiveness of a stock compared to its own history and compared to the S&P 500. (In 1992, I co-authored Relative Dividend Yield, Common Stock Investing for Income and Appreciation with Tony Spare)

- **RPSR**: In fallen-angel growth companies where the dividend is less of a factor in management's calculus, we look at sales—a fact. Rarely are sales manipulated and when they are someone usually goes to jail. The price-to-sales ratio measures how much investors are paying for a unit of sales, the relative price-to-sales ratio reveals what investors have historically paid for a particular company's sales compared to what they are paying for the sales of all the companies in the S&P 500. In 2003, I authored New Era Value Investing, John Wiley & Sons where I outline the benefits of RPSR in stock selection.

- Discipline, in summary, is the only way to navigate volatile markets. We remain disciplined and over time that consistency generates excess return.

Fundamental Research reduces the ownership of terminally cheap companies:
Meet the 12 Fundamental Factors.
Our proprietary research approach analyzes fundamental qualitative and quantitative factors.

- **Qualitative Factors:** Catalyst for Outperformance, Franchise Value & Market Growth, Top Management/Board of Directors.

- **Quantitative Factors**: Sales Growth, Operating Margins, Relative P/E, Positive Free Cash Flow, Dividend Coverage/Growth, Asset Turnover Ratio, Use of Cash (buyback, debt, div.), Leverage, Financial Risk.

General Disclosures

Advisory services offered through Laffer Tengler Investments, Inc. Information and commentary provided by Laffer Tengler Investments, Inc. ("Laffer Tengler") are opinions and should not be construed as facts. The market commentary is for informational purposes only and should not be deemed as a solicitation to invest or increase investments in Laffer Tengler products or the products of Laffer Tengler affiliates. The information contained herein constitutes general information and is not directed to, designed for, or individually tailored to, any particular investor or potential investor. This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities. Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. There can be no guarantee that any of the described objectives can be achieved. Laffer Tengler Investments, Inc. does not undertake to advise you of any change in its opinions or the information contained in this report. Past performance is not a guarantee of future results. Information provided from third parties was obtained from sources believed to be reliable, but no reservation or warranty is made as to its accuracy or completeness.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. The price of any investment may rise or fall due to changes in the broad markets or changes in a company's financial condition and may do so unpredictably. Laffer Tengler Investments, Inc. does not make any representation that any strategy will or is likely to achieve returns similar to those shown in any performance results that may be illustrated in this presentation.
There is no assurance that a portfolio will achieve its investment objective.

Definitions and Indices

The S&P 500 Index is a stock market index based on the market capitalization of 500 leading companies publicly traded in the U.S. stock market, as determined by Standard & Poor's.

Unless otherwise noted, index returns reflect the reinvestment of income dividends and capital gains, if any, but do not reflect fees, brokerage commissions, or other expenses of investing. Investors cannot make direct investments into any index.

Laffer Tengler Investments, Inc. is a Registered Investment Advisor. Registration with the SEC or a state securities authority does not imply a certain level of skill or training. Laffer Tengler's advisory fee and risks are fully detailed in Part 2 of its Form ADV, available on request.

---

310 Seven Springs Way, Suite 230
Brentwood, TN 37027
www.laffertengler.com