# LAFFER | TENGLER
INVESTMENTS

RESEARCH BULLETIN — May 25, 2021

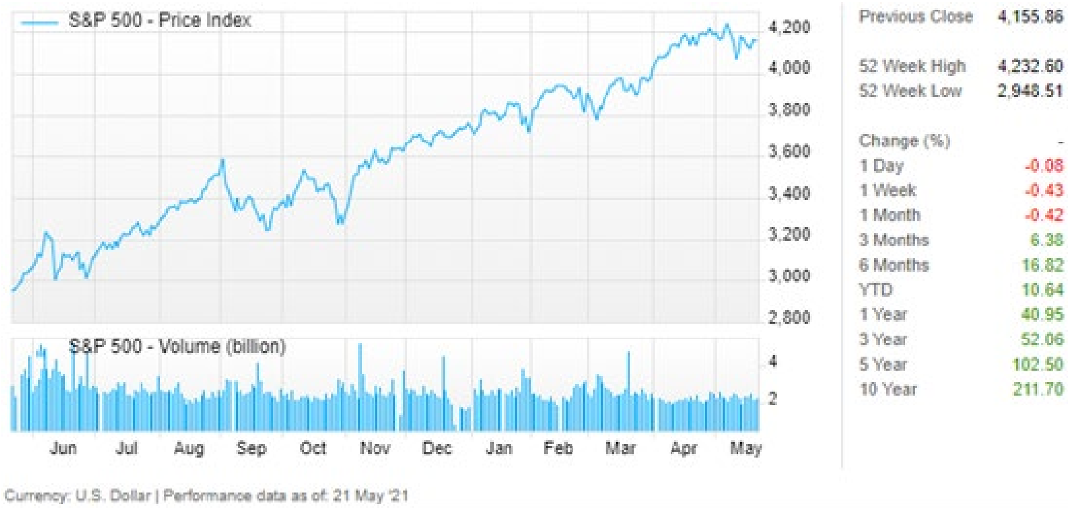
Nancy Tengler, Chief Investment Officer

### Markets at a Glance – Index Prices as of 05/21/2021

| | CURRENT PRICE | ONE MONTH CHANGE | YEAR TO DATE CHANGE |
|---|---|---|---|
| ***S&P 500*** | 4,155.86 | -0.42% | 10.64% |
| ***Dow Jones Industrial*** | 34,207.84 | 0.21% | 11.77% |
| ***MSCI World Index*** | 2,943.13 | 0.35% | 9.41% |

Source: FactSet and Bloomberg

## S&P 500




Source: FactSet

## Dow Jones Industrial

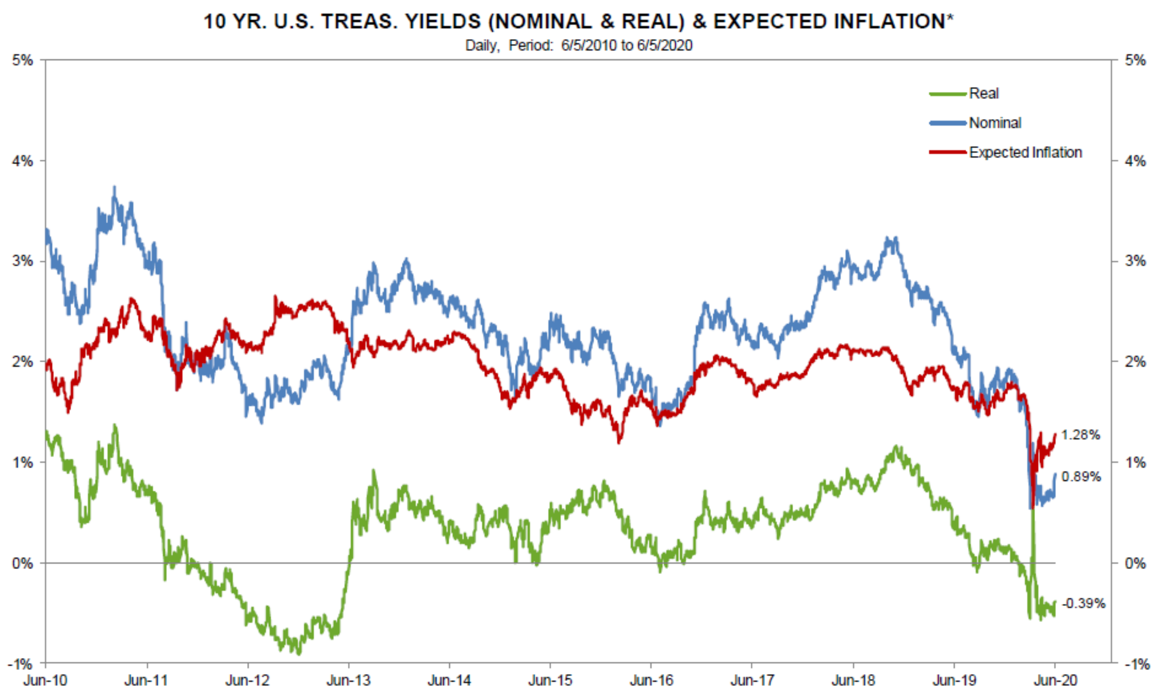

Source: FactSet

| VALUES AS OF 05/24/2021 | CURRENT PRICE | ONE MONTH CHANGE | YEAR TO DATE CHANGE |
|---|---|---|---|
| ***10-Yr US Treasury Yld*** | 1.6046 | 2.42% | 75.71% |
| ***30-Yr US Treasury Yld*** | 2.2989 | 2.63% | 39.76% |
| ***Dollar Spot Index (DXY)*** | 89.850 | -1.05% | -0.09% |
| ***Crude Oil WTI*** | $65.96 | 6.54% | 35.94% |
| ***Crude Oil Brent*** | $68.56 | 4.42% | 32.36% |
| ***Natural Gas*** | $2.881 | 3.26% | 13.47% |
| ***Gold*** | $1,883.02 (spot) | 5.71% | -0.81% |
| ***Silver*** | $27.76 (spot) | 5.87% | 5.14% |
| ***Copper*** | $9,867.50 | 4.74% | 27.34% |
| ***Platinum*** | $1,179.26 (spot) | -5.38% | 9.99% |
| ***Palladium*** | $2,739.61 (spot) | -6.40% | 11.88% |
| ***Corn*** | $656.00 | -0.23% | 36.59% |
| ***Wheat*** | $665.00 | -10.11% | 5.85% |

Source: Bloomberg

## Market Inflation Expectations

*Research from our partner Laffer Associates*



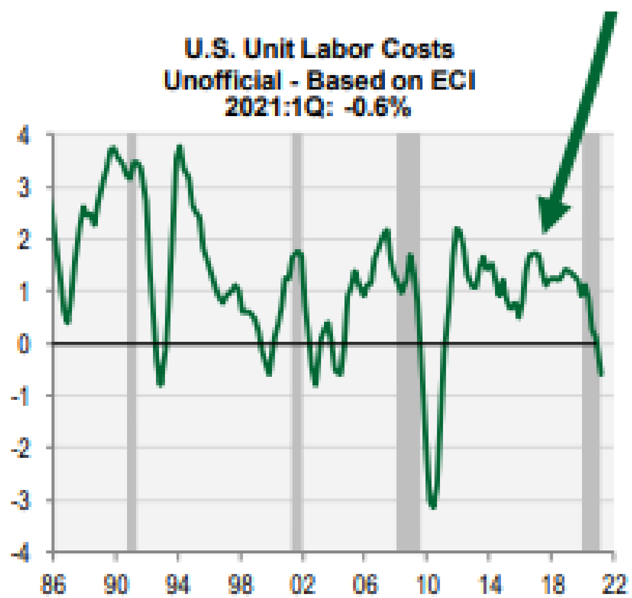

*Nominal and inflation-indexed (TIPS), linked historical yields of the most recently-issued (on-the-run) Treasuries. Expected inflation is derived from these two series.
Source: BL, UST.

## The Outlook for Equities

*from Nancy Tengler, Portfolio Manager & Chief Investment Officer*

The biggest potential risks to the market are:

- Policy mistakes:
  1. The Fed is too sanguine, and the inflation "controlled burn" turns into a wildfire.
  2. The infrastructure bill and proposed corporate tax rate increases – especially the global intangible low-taxed income ("GILTI") increase – will hit essential sectors/industries (generally semiconductors, pharma, industrials, and tech) especially hard and will drive capex spend off-shore. Capex is the essential offset to our second worry.
- Wage inflation:
  1. Good for consumers, bad for profit margins unless companies invest in capex, which boosts productivity resulting in contained unit labor costs.
  2. We are still watching the Employment Cost Index ("ECI") vs. Average Hourly Earnings ("AHE"). AHE was distorted by the shut down and loss of low paying jobs, skewing AHE higher. ECI accounts for mix shifts. It is up 2.7% year over year. Without continuing capex spending and improving productivity, this number will begin to have a negative impact on profit margins.
  3. Proposed corporate tax policies will cut into the robust capex spending trend we have been experiencing.
  4. Unit Labor Costs ("ULCs") using the ECI are low, but we are watching.



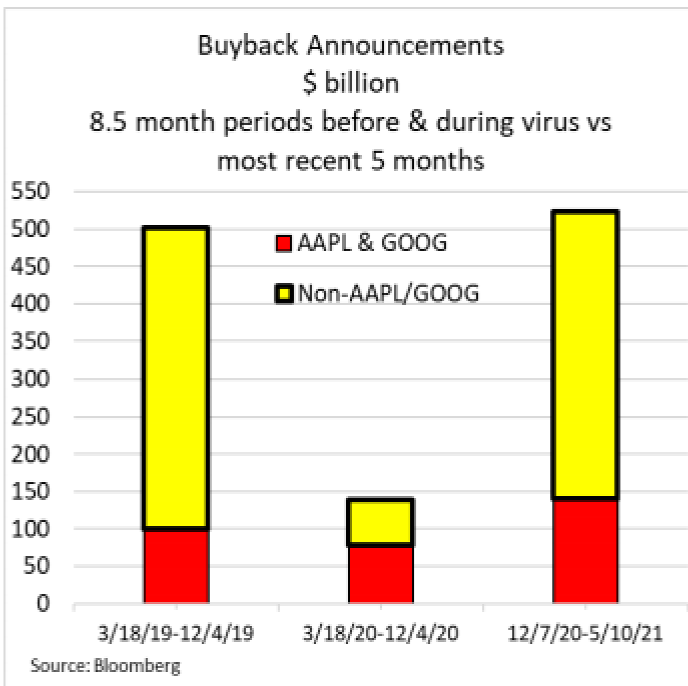

Source: Cornerstone Macro, May 6, 2021

**Tail winds:** The market is doing what new bull markets typically do. Last year we saw negative earnings and soaring stock prices as the market anticipated a strong economic rebound. This year we expect to see eps growth over 25% as market multiples recalibrate. Going into 2022 we are likely to see a much lower market multiple as earnings catch up to stock prices (Note: we've already had a very good year!)

Inventory rebuild and buybacks are BULLISH and largely being ignored.

**Inventory Re-build:** The reasons behind depleted inventories are old news, but the restocking and new orders will drive GDP growth, likely through the end of the year, and should keep Purchasing Managers' Indexes ("PMIs") elevated—good for earnings and stocks.

**Buybacks:** What provides a floor for stock prices? Buybacks! Stock buyback announcements are already above pre-pandemic levels, which is why we expect corrections to be relatively quick. Think: October. Wall Street buyback desks do not normally like the risk of buying stocks as they drop. Instead, they like to see some type of low established, and then rush to buy once the 10-day volume weighted average price ("VWAP") crosses above the 50-day. That's a firm floor.



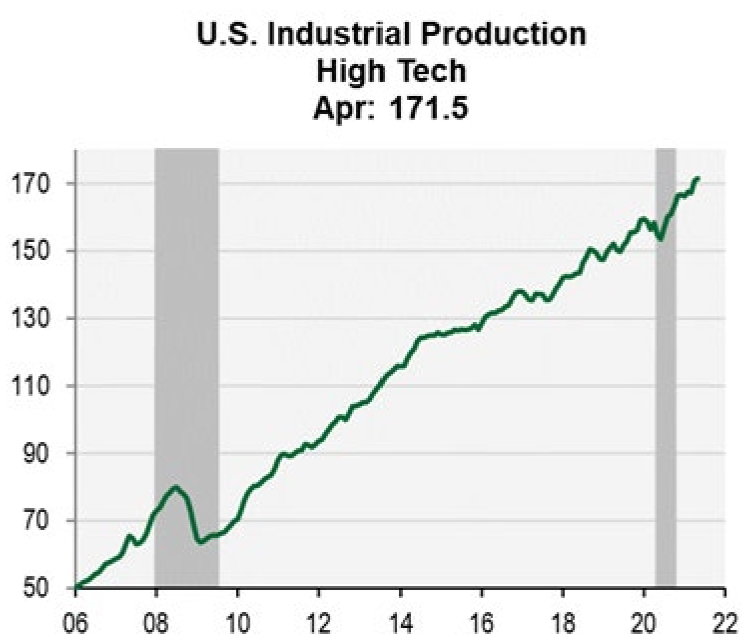

Source: Reynolds Strategy, May 12, 2021

**Technology:** I know the consensus is underweight tech. I get it. Some segments of tech are sporting lofty multiples, not just on earnings but on sales. As you know, we look at Relative Price to Sales Ratios, which compare what I am paying for a future unit of sales vs. what I have paid in the past for this same stock and what I am paying compared to the market.

Below is the RPSR chart of Apple (AAPL), a company we were selling for most of last year. We still own some, but we sold about 60% of our holdings. RPSR gives valuable information at turning points. But we are still finding attractive names. Given the universally negative view of the tech space, we think it is time to go shopping for high quality names who benefit from the secular increase in capex we expect for years to come.


Source: Bloomberg

Tech capex is 50% of total capex and rising. Tech capex spend has been on the rise for decades and we expect that spend to improve productivity and be an offset to wage inflation—one the thing we are watching.




Source: Cornerstone Macro, May 15, 2021

**Tech and inflation—cyclical vs. a-cyclical inflation.** Ned Davis came out with a sell yesterday on technology based on historical underperformance during inflationary periods since the early 1970s. But look at the table below. Over the last thirty plus years, as tech increased in importance to total capex spend, technology has been the best performing sector, followed by energy. Technology intrigues us here, and we are adding to holdings. Additionally, the narrative is powerful—estimates $2T of spending in cloud, cyber security and 5G in the coming years.

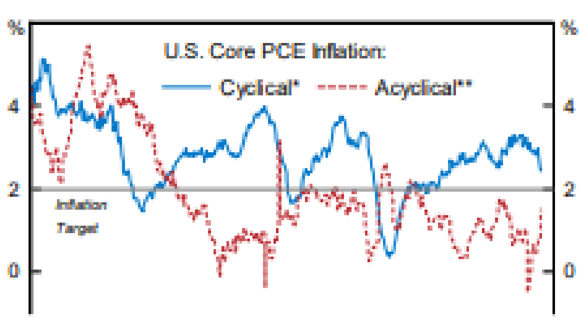
**Index Performance During Periods of Rising Inflation (Annualized)**

| Index | 4/30/1998<br>4/30/2000 | 6/30/2002<br>9/30/2005 | 10/31/2006<br>7/31/2008 | 7/31/2009<br>9/30/2011 | 4/30/2015<br>7/31/2018 | Average<br>(Sorted) |
|---|---|---|---|---|---|---|
| Technology | 60.1% | 10.4% | 1.0% | 10.5% | 20.7% | 20.5% |
| Energy | 5.3% | 23.7% | 18.6% | 8.6% | 1.2% | 11.5% |
| Real Estate | NA | 15.9% | -9.1% | 28.7% | 6.8% | 10.6% |
| Utilities | 8.2% | 15.1% | 7.1% | 12.6% | 9.5% | 10.5% |
| Industrials | 10.5% | 9.0% | 1.1% | 12.2% | 12.0% | 9.0% |
| Discretionary | 17.3% | 6.3% | -13.0% | 18.8% | 14.6% | 8.8% |
| S&P 500 | 15.8% | 8.8% | -2.7% | 9.0% | 12.0% | 8.6% |
| Telecom | 22.7% | 6.6% | -5.3% | 11.9% | 3.0% | 7.8% |
| Health Care | 7.8% | 5.7% | -0.4% | 8.7% | 8.7% | 6.1% |
| Materials | -7.5% | 7.8% | 13.5% | 4.7% | 7.6% | 5.2% |
| Staples | -11.1% | 3.8% | 6.1% | 13.3% | 6.1% | 3.6% |
| Financials | 0.4% | 7.7% | -22.5% | -3.2% | 13.7% | -0.8% |

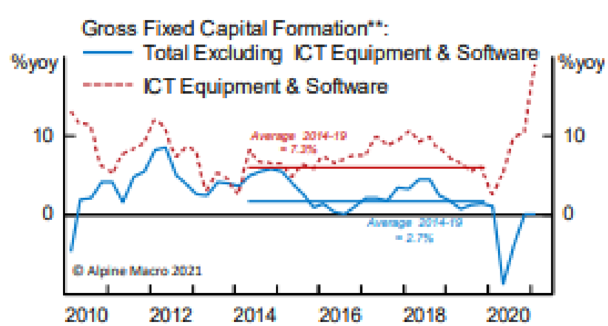
Source: Strategas

**Cyclical vs. A-cyclical Inflation**—no one seems to be talking about this except our friends at Alpine Macro. They are in the transitory inflation camp because they believe the Fed can really only affect cyclical inflation which has been trading above 2% for some time. Whereas a-cyclical inflation, which is influenced by tech spend (also part of our bullish tech thesis), has remained below 2%. This has befuddled the Fed but has been great for productivity driven growth (our base case ex. policy mistakes) a la the 1990s.

It is likely that we are seeing a price shock: transfer payments galore, services sector shutdown so spending focused on goods affected by supply chain disruptions and bottlenecks. Voila! Higher input costs and higher prices, and tech capex continues to outpace traditional capex spending.



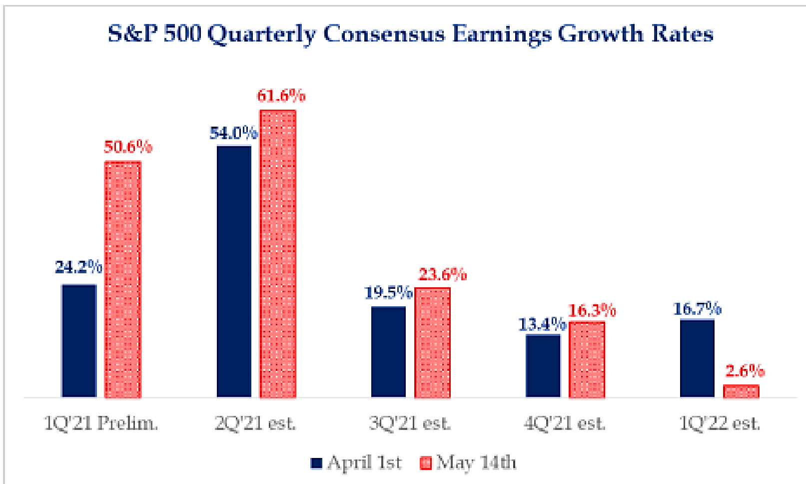

Source: Alpine Macro, May 11, 2021




*Source: Federal Reserve Bank of San Francisco
**Source: Source: OECD

**TINA:** It's not a forever strategy, but we have argued for over nine months that bonds are riskier than stocks. So far, that has proven right. We moved our clients into convertibles and non-correlated assets. In the U.S., real rates of return for bonds are generally still negative. The good news in Europe? Still negative vs. inflation, BUT finally moving above zero for the first time in years. This will give central banks more flexibility.

However, earnings growth is slowing.




Source: Strategas, May 17, 2021

## Bonds & Fixed Income

*from Jason Weaver, CFA®, Head Trader & Portfolio Manager*

The specter of elevated inflation continues to dominate the headlines, driving TIPS breakeven rates to their highest level yet with 10yr implied inflation of 2.57% at the end of last week. The real question on our minds is not whether inflation will rise due to easy base year (2020) effects, but rather if this will indeed prove transitory in the medium term as implied by the Federal Open Market Committee ("FOMC"). We agree on balance, but policymakers' actions could directly affect this in the coming months. In fact, several board members have publicly advocated including "taper talk" in their upcoming public speeches, as well as in official communications with the public from the Fed. Again, this may be prudent to stop markets from getting ahead of themselves, but it must be balanced against the rash language that caused the unnecessary taper-tantrum of 2003, possibly derailing the current recovery.

## Convertible Securities

*from Stan Rogers, Portfolio Manager*

News/Earnings:

**International Flavors and Fragrances (IFF)** released Q1 earnings, which was the first report to include the recently completed merger with Dupont's Nutrition and Biosciences division. Sales and earnings were both above consensus estimates, and the company raised the forecast for 2021. Management noted increased input costs as a headwind and decreased margin estimates slightly as a result.

**Voya Financial (VOYA)** had solid results for Q1 with earnings well ahead of estimates. Wealth Solutions and Investment Management divisions outperformed while Health Solutions was slightly below projections. Assets under management grew 2.5%, which was mainly driven by growth in retirement assets.

**Palo Alto Networks (PANW)** had a bullish Q3 earnings report. The company exceeded estimates on both earnings and sales while also guiding FY 21 estimates higher. PANW experienced acceleration in year-over-year billings growth due to demand for broad-based security solutions. The transition of the company to a software and subscription model is progressing in a positive direction.

Transactions:

We sold the **Booking.com (BKNG)** 0.90% convertible bond and swapped into the BKNG 0.75%. The 0.90% matures in September, and accounts wanting to extend exposure in the name until the 2025 maturity will eventually have to swap into the 0.75%. The stock had been weak following Q1 earnings and overall market weakness. We thought it would be a good time to initiate the change. The 0.75% trades on a 75 delta, and with the A credit rating trades a little rich to fair value (as is the case for all IG rated names due to the scarcity value). As Europe rolls out the vaccine more widely, the travel recovery there should follow the same improving path as in the US. The up/down is estimated to be +16%/-15% on a +/- 25% move in the common.

## Equity Hedging

*from David Jeffress., Portfolio Manager*

Two weeks ago, we purchased our final round of put options for the quarter. We bought the SPY 07/16/2021 P210's, which are put contracts set to expire on July 16, 2021 with a strike price of $210.

With this transaction, we effectively have downside protection through the end of the quarter in the event of a major market sell-off. As a point of reference, the S&P 500 is up 10.87% year-to-date and 4.82% quarter-to-date.

In addition, volatility has returned somewhat, as expressed by the Volatility Index (VIX), which is up 3.14% this quarter despite being down 12.04% year-to-date. After dropping to as low as 16.69 on May 7, it reached 27.59 a few days later before falling again to below 19. While nowhere near the volatility we experienced in 2020, it remains an important metric, and one that we carefully monitor.

## Global Revolution

*from Jonathan Berkowitz., Securities Analyst*

### *Blockchain Vs. Cryptocurrency*

Bitcoin, Ethereum, Dogecoin, oh my! As you may know, cryptocurrencies have been front and center on the world stage over the past week. Since the beginning of April, Bitcoin has seen its price fall over 43%. It's important to note, this dramatic shift is not new for Bitcoin. Over the course of the past 11 years, Bitcoin has seen more than 750 instances where the daily change was 5% or greater, 230 instances where the daily change was 10% or greater, and 50 instances where the daily change was 20% or greater.

On Thursday, the US Treasury announced that it may require crypto transfers over $10K to be reported to the IRS. This year, the IRS has been strengthening its ability to track taxpayers who own cryptocurrencies by probing digital currency exchanges and threatening to seize the assets of the tax evaders. To make matters worse for the crypto faithful, on Friday, China reiterated a warning that it intends to crackdown on cryptocurrency mining as part of an effort to control financial risks. China has long expressed displeasure with the anonymity provided by Bitcoin and other crypto tokens. The country is home to a large concentration of the world's crypto miners who use vast sums of computing power to verify transactions on the blockchain.

Crypto trading is not for the faint hearted. A measure of implied volatility on Bitcoin comparable to the U.S. equity market's VIX indicator sits above 130, which is higher than the stock version has gotten in the last 30 years. Thirty-day historical volatility in the coin is roughly 100, some seven times more than the S&P 500.

The future of cryptocurrencies in unclear; however, the one certainty is that cryptocurrency and blockchain are not one in the same. Blockchain is the digital, distributed, and decentralized ledger underlying most virtual currencies that is responsible for logging all transactions without the need for a financial intermediary, such as a bank. With blockchain, real-time transactions are possible (even across boarders), while banks are left out of the equation entirely, reducing transaction fees.

There are many real-world applications for the blockchain beyond the currency setting. This potentially game-changing technology can monitor supply chains, run retail loyalty rewards programs, authenticate users by creating decentralized digital IDs, validate tax regulations and compliance, provide copyright and royalty protection, create a digital voting system, and create HIPPA compliant digital medical records.

While cryptocurrencies can be volatile and unpredictable, it is important to remember their underlying technology, blockchain, is here to stay and this transformative technology will challenge the status quo for years to come.

## 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

How Hourly Wage Growth Will Affect The Economy (AmeriTrade Network, May 12)
Is Now the Time to Buy Social Media Stocks? (Trading Nation, May 4)
Wall Street's Sector Horse Race is Afoot as Six Groups Hit Highs (CNBC, April 29)
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)

## Completed Analysis Item(s) for Portfolio Companies

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

Adobe, Inc. (ADBE)
Pioneer Natural Resources Company (PXD)
Lumentum Holdings, Inc (LITE)
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 Growth

| COMPANY NAME | TICKER | BUY/SELL | CURRENT ALLOCATION | NEW ALLOCATION |
|---|---|---|---|---|
| Alphabet Inc. | GOOGL | SELL | 3.23% | 3.00% |
| Facebook, Inc. | FB | SELL | 3.48% | 3.00% |
| Goldman Sachs Group, Inc. | GS | SELL | 3.58% | 3.00% |
| Lowe's Companies, Inc. | LOW | SELL | 2.82% | 2.50% |
| Square Inc. | SQ | BUY | 2.33% | 3.00% |
| Adobe, Inc. | ADBE | BUY | 0.00% | 2.00% |

### Changes to Equity Growth ex-REIT

| COMPANY NAME | TICKER | BUY/SELL | CURRENT ALLOCATION | NEW ALLOCATION |
|---|---|---|---|---|
| Alphabet Inc. | GOOGL | SELL | 3.23% | 3.00% |
| Facebook, Inc. | FB | SELL | 3.48% | 3.00% |
| Goldman Sachs Group, Inc. | GS | SELL | 3.58% | 3.00% |
| Lowe's Companies, Inc. | LOW | SELL | 2.82% | 2.50% |
| Square Inc. | SQ | BUY | 2.33% | 3.00% |
| Adobe, Inc. | ADBE | BUY | 0.00% | 2.00% |
| Freeport-McMoRan, Inc. | FCX | BUY | 1.52% | 2.00% |

### Changes to Convertibles

| COMPANY NAME | TICKER | BUY/SELL | CURRENT ALLOCATION | NEW ALLOCATION |
|---|---|---|---|---|
| Booking.com 0.90% | BKNG | Sell | 3.00% | 0.00% |
| Booking.com 0.75% | BKNG | Buy | 0.00% | 2.25% |

## 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

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## 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.

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