

LAFFER | TENGLER

INVESTMENTS

RESEARCH BULLETIN

Nancy Tengler, Chief Investment Officer

August 17, 2021

Markets at a Glance - Index Prices as of 08/13/2021

	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
S&P 500	4,468.00	2.26%	18.95%
Dow Jones Industrial	35,515.38	1.80%	16.04%
MSCI World Index	3,125.12	2.15%	16.17%

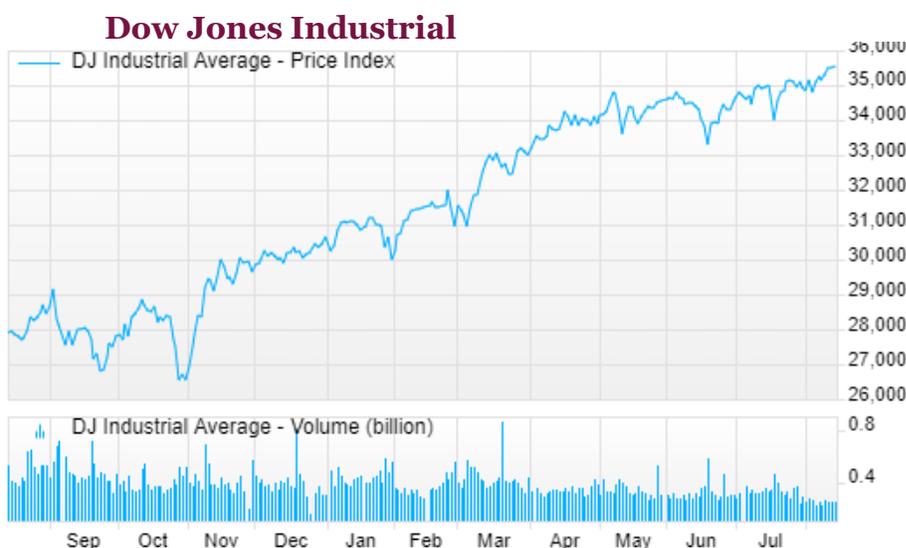
Source: FactSet and Bloomberg



Currency: U.S. Dollar | Performance data as of: 13 Aug '21

Previous Close	4,468.00
52 Week High	4,468.00
52 Week Low	3,236.92
Change (%)	-
1 Day	0.16
1 Week	0.71
1 Month	2.26
3 Months	8.64
6 Months	13.55
YTD	18.95
1 Year	32.45
3 Year	58.33
5 Year	104.57
10 Year	279.03

Source: FactSet



Currency: U.S. Dollar | Performance data as of: 13 Aug '21

Previous Close	35,515.38
52 Week High	35,515.38
52 Week Low	26,501.60
Change (%)	-
1 Day	0.04
1 Week	0.87
1 Month	1.80
3 Months	4.39
6 Months	12.90
YTD	16.04
1 Year	27.31
3 Year	41.00
5 Year	91.18
10 Year	215.16

Source: FactSet

VALUES AS OF 08/16/2021	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
10-Yr US Treasury Yld	1.2450	4.73%	36.33%
30-Yr US Treasury Yld	1.9134	5.19%	16.37%
Dollar Spot Index (DXY)	92.624	-0.29%	2.99%
Crude Oil WTI	\$67.53	1.70%	39.18%
Crude Oil Brent	\$69.73	1.60%	34.61%
Natural Gas	\$3.969	4.97%	56.32%
Gold	\$1,786.88 (spot)	-1.42%	-5.87%
Silver	\$23.82 (spot)	-5.36%	-9.78%
Copper (LME, cash)	\$9,542.50	1.61%	23.14%
Platinum	\$1,027.01 (spot)	-4.66%	-4.21%
Palladium	\$2,615.27 (spot)	0.72%	6.80%
Corn	\$563.50	1.35%	16.43%
Wheat	\$760.00	8.92%	18.66%

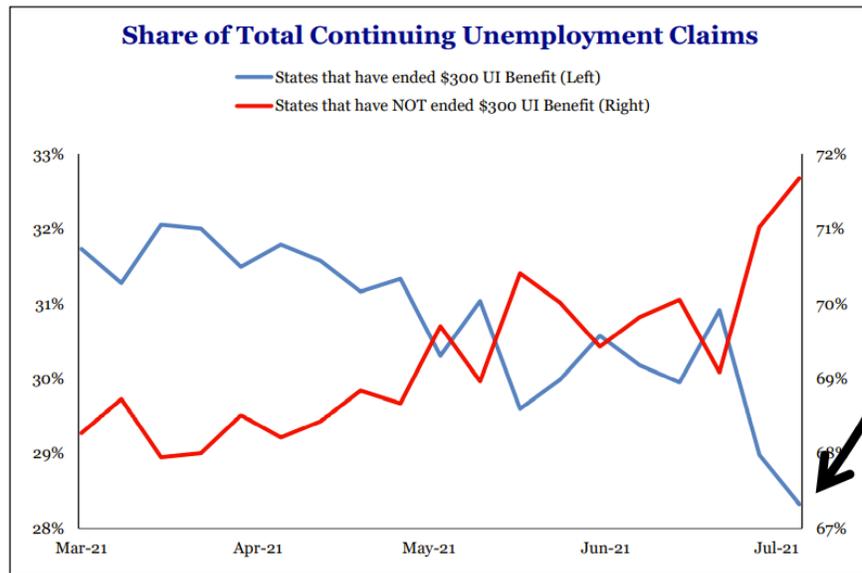
Source: Bloomberg

The Outlook for Equities

from Nancy Tengler, Portfolio Manager & Chief Investment Officer

Jobs: The jobs report for July was excellent—a change in nonfarm payrolls of 943K versus expectations of 870K. Add to that, the June number was revised upward by almost 100K jobs. We believe part of the reason more individuals returned to work is the cessation of supplemental benefits in many states. I split my time between Nevada and Arizona. Arizona stopped the Federal supplemental benefits on July 10—not a help wanted sign to be seen. In Incline Village, virtually every establishment has a help wanted sign in the window—gas stations, grocery stores, the post office, pet stores, coffee shops, you name it. Supplemental benefits are still in place in Nevada. But forget the anecdotal evidence. Check out the chart on the next page from Dan Clifton at Strategas.

States that have ended the supplemental benefits are reporting significantly lower continuing claims. Since the Job Openings and Labor Turnover Survey (JOLTS) number came out on August 9th exceeding expectations at 10,073M open jobs, we are hopeful that the supplemental benefits will be allowed to expire, which will nudge people back into the job market to fill the very large level of openings.



Source: Strategas

In my 35 years in the business I have learned a few things. The consensus will eventually be wrong, and it is rarely “different this time.” However, it is important to constantly check your biases and your assumptions. Below are some things we are thinking about.

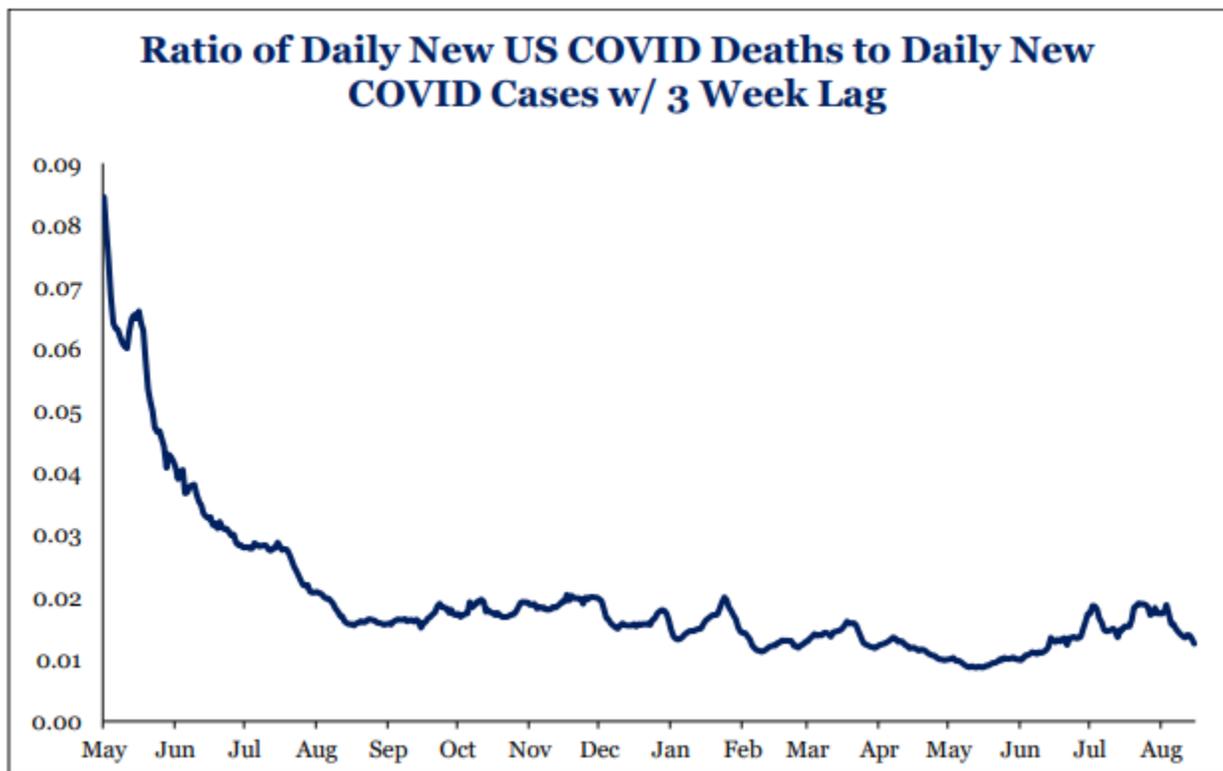
Growth: While we continue to believe the second half in the U.S. will produce robust growth, 2022 is another story. The rate of change will decline—it’s just math—but that does not mean growth will be moribund. That said, in May we began shifting our portfolios to a more growth at a reasonable price bias in high quality companies that had not kept pace with the market year to date. We bought selective tech names, added to others, added to industrials and materials, and selected consumer discretionary names. We still believe the secular trend is toward growthier stocks—not growth at any price but growth at a reasonable price. Also a focus: dividend growers. Dividend increases have been impressive.

PMIs have flattened, though they are still expansionary. The June report revealed a big gap between production and new orders, resulting in depleted inventories—a 25 year low—which bodes well for second half activity. Add to that CEO confidence is high, supply chain bottlenecks should ease, and companies are sitting on cash and tons of unused credit.

There is plenty that can still go wrong (the Delta variant refuses to peak as it has in other parts of the world, bad policy out of DC, tensions escalating in the Middle East), but it is likely the second half of 2021 will result in double-digit real GDP growth, and this will be good for markets. This does not, however, remove our expectation that we will get a correction—markets are overdue—but given the strong underlying fundamental picture, we believe a correction will be an opportunity to add to high-quality companies.

Inflation: The Fed has been wrong about inflation for over ten years. Their tools were unable to move the needle on inflation—the deflationary trends of the last five years, driven largely by tech and incremental productivity improvements, were more influential than Fed policy in trying to achieve 2% inflation. Earlier this year, the Fed told us inflation would be transitory (which meant a few months). They were surprised by inflation’s strength and were forced to raise their inflation target. We believe inflation will be stronger for longer and stickier than the Fed continues to anticipate.

Why we do not believe the Delta variant will derail the economic recovery: With the advancement of COVID treatments and the increase in vaccinations in the U.S., we take great comfort in the chart below, which shows a dramatic decline in the death rate to new cases since the start of COVID tracking and since the surge in the Delta variant. Pervasive lockdowns are unlikely.



Source: Strategas, August 11, 2021

Bonds & Fixed Income

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

We made one change to the Fixed Income Strategy recently, selling our exposure to local currency denominated emerging market sovereigns and buying the same exposure to USD\$ denominated emerging markets (EM) debt. We remain optimistic about the prospects for EM in general, especially due to reopening of trade relationships with the US, the prospect of more commodity price inflation benefitting these economies, and the elevated yields available from the underlying securities. We made this change for two reasons: 1) We are reducing our exposure to China (15% of iShares J.P. Morgan EM Local Currency Bond ETF (LEMB) vs ~3% of iShares J.P. Morgan USD Emerging Markets Bond ETF (EMB) due to a change in tone from the Chinese Communist Party (CCP): exercising more direct control over their financial system and imposing regulatory hurdles on the burgeoning private sector, which may hamper growth prospects. 2) We are removing our implicit short USD\$ position due to the probability of appreciation as the prospect for Federal Open Market Committee (FOMC) rate hikes to counter inflation draws nearer.

Convertible Securities

from Stan Rogers, Portfolio Manager

News/Earnings of note:

Akamai Technologies (AKAM) reported Q2 earnings and revenue that were both above consensus and raised the lower range of Q3 and FY21 guidance. While the underlying trends in the content delivery and security business are solid, the growth outlook seemed to disappoint some investors. We are optimistic that the Edge computing and cloud-based security growth will exceed expectations.

Booking Holdings (BKNG) reported earnings that were light versus estimates while revenues were above expectations. Room nights sold and total bookings were well above previous guidance. Management expects continued improvement, with European trends showing signs of strength.

Western Digital (WDC) had a very impressive Q4 report. Earnings and sales were above consensus and the company raised guidance for Q1 sales and earnings. Hard disk drives (HDDs) and NAND flash memory were both strong, driven by data center and PC/notebook demand. Margins also expanded for HDDs.

Becton Dickinson (BDX) released Q3 numbers where earnings and sales were above estimates, and the company also raised expectations for the year. However, management expressed some caution regarding the Delta variant's impact on elective procedures and announced the retirement of CFO Christopher Reidy. He will remain on board until a successor is in place.

Viacom CBS (VIAC) released Q2 numbers showing earnings a penny light and revenues above estimates. Paramount+ streaming service added over 6 million subscribers, and advertising

revenue grew as marketers spent more after the slowdown in 2020. An agreement was reached with SKY to launch Paramount+ in European markets in 2022.

Illumina (ILMN) produced another solid quarter. Earnings and sales were above estimates, and the company also raised guidance for the remainder of their fiscal year. Placements of their NextSeq sequencing systems were very strong.

Transactions:

Becton Dickinson (BDX) stock was weak following their Q3 earnings report and the CFO retirement. As a result of the weakness, the mandatory convertible preferred cheapened on a sum-of-the-parts basis, and we added approximately 60 bps points to our existing position.

Upcoming maturities/redemptions:

CNP.B 7% mandatory convertible preferred went ex on 8-12, so we will sell after the last remaining dividend and prior to the 9-1 maturity date.

IFFT 6% mandatory convertible preferred goes ex on 9-11 and matures on 9-15, and we will try and sell in this narrow window.

NI 7.75% mandatory is a replacement candidate for the CNP position.

Equity Hedging

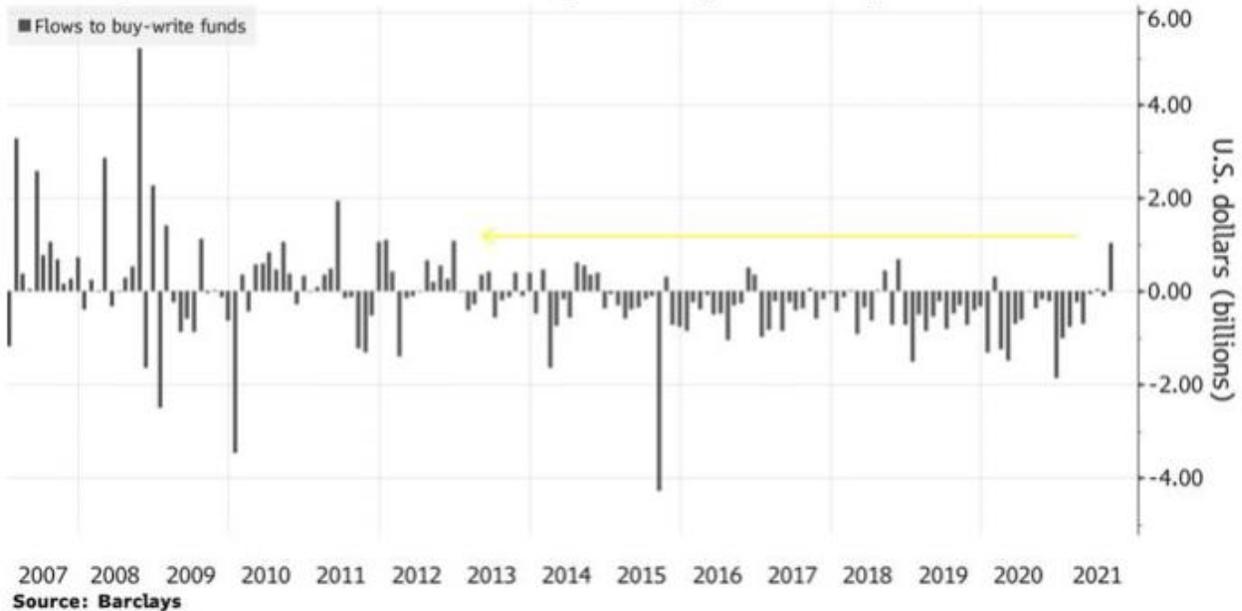
from David Jeffress., Portfolio Manager

While most of our discussion in this section revolves around buying and (potentially) selling put options against the SPY ETF, there has been an interesting development lately in another corner of the options market that often goes unnoticed.

Covered-call writing, or buy-writing, a strategy that involves selling calls against a portfolio of equities to generate additional income, reduce risk, or both, has been gaining in popularity and has seen the highest inflows, based on publicly available fund-flows, since 2012.

While not a guaranteed market indicator by any means, this trend could signal additional caution ahead. We expect the market to climb higher for the remainder of 2021 based on strong earnings, improving fundamentals, and expanding guidance, but being cautiously optimistic never hurt anyone.

Betting on Go-Nowhere Market U.S. buy-write funds lured most money in nine years in July



We are 80% allocated to put options on the SPY as of 8/13/2021 and have been waiting for an opportune time to deploy the remaining capital in the hedge strategy for the quarter to call options on the VIX Index, as we have done previously. The long-term trend on the VIX suggests that anything below 12 would be an ideal entry point. However, we pride ourselves in being flexible and have revised our target. Should the VIX stay at or below 15 in the coming days we anticipate making this final trade for the quarter.

Global Revolution

from Jonathan Berkowitz., Securities Analyst

Can Ethereum Solve the Energy Debate?

Over the past months, environmentalists have been attacking Bitcoin due to its high energy consumption. According to the Cambridge Center of Alternative Finance (CCAF), Bitcoin currently consumes around 110 Terawatt Hours per year, which is 0.55% of global electricity production. To put that in perspective, Bitcoin's energy draw is equivalent to the annual draw of small countries like Malaysia or Sweden; however, Bitcoin is not the only fish in the sea. It isn't even the biggest fish.

Ethereum is currently the world's most used blockchain, but what is it? According to its founder Vitalik Buterin, Ethereum is a technology that lets you send cryptocurrency to anyone for a small fee. It also powers applications that everyone can use, and no one can take down. It is the world's programmable blockchain.

In a recent study done by the Ethereum Foundation, Ethereum's proof-of-work mechanism uses 45 Terawatt Hours per year, but Ethereum's recent breakthrough could reduce energy consumption by 99%. As early as the end of this year, Ethereum plans to switch from proof-of-work to proof-of-stake. Instead of depending on miners, proof-of-stake relies on validators who stake their Ether (ETH). This allows for better energy efficiency, lower barriers to entry and reduced hardware requirements.

The question about whether cryptocurrencies are detrimental to the environment will continue, but there is no question that Ethereum is doing its part.

Food for thought:

Galaxy Digital compared the Bitcoin network's energy consumption with that of the banking system as well as the gold industry, since the largest cryptocurrency is often compared with the two. The report found that banking and gold consume around 263.72 TWh per year and 240.61 TWh per year, respectively.

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

[Two Traders Share The Sectors Theyre Picking After Infrastructure Bill Passes The Senate](#) (CNBC, August 10)

[Chinese Stocks Stretch Comeback Into Day Two But Trader Warns It May Not Last](#) (CNBC, August 10)

[Common Thread Of Companies Planning To Do Buybacks](#) (CNBC, August 6)

[Takeaways From The Market](#) (TD Ameri Trade, August 5)

[Nancy Tengler Shares Her Thoughts On Recent Fed Changes](#) (Bloomberg TV, July 29)

[Top Picks For The Automotive Market](#) (CNBC, July 27)

[China Tech Stocks Extend Losses](#) (CNBC, July 27)

[Starbucks Earnings On Deck - What To Expect](#) (CNBC, July 27)

[Is Biden Putting America's Fate In Foreign Hands, Again?](#) (Fox News, July 13)

[Nancy Tengler Talks About The Importance Of Growth Picks](#) (Ameri Trade, June 25)

[Tengler Shows How Hourly Wage Growth Will Affect The Economy Post-Covid](#) (Ameri Trade, May 12)

[Is Now The Time To Buy Social Media Stocks?](#) (Trading Nation, May 4)

Completed Analysis Item(s) for Portfolio Companies

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

Broadcom Inc. (AVGO)	Cisco Systems, Inc. (CSCO)
FedEx (FDX)	Amgen Inc. (AMGN)
International Flavors & Fragrances, Inc. (IFF)	JPMorgan Chase & Co. (JPM)
Palo Alto Networks, Inc. (PANW)	Texas Instruments Inc. (TXN)
Morgan Stanley (MS)	United Parcel Service, Inc. (UPS)
Boeing (BA)	McDonald's Corporation (MCD)
Goldman Sachs (GS)	PepsiCo, Inc. (PEP)
Visa (V)	Medtronic Plc (MDT)
AbbVie (ABBV)	Dominion Energy (D)
Tiffany & Co. (TIF)	PNC Fin. Serv. Group, Inc. (PNC)
Walt Disney Company (DIS)	BlackRock, Inc. (BLK)
International Paper Co. (IP)	Roku, Inc. (ROKU)
Salesforce.com (CRM)	Chevron Corporation (CVX)
Micron (MU)	Lam Research Corp. (LCRX)
Pfizer (PFE)	II-VI Incorporated (IIVI)
AT&T (T)	3M Company (MMM)
Boston Scientific Corp. (BSX)	Roku, Inc. (ROKU)
Western Digital Corp. (WDC)	Coca-Cola Company (KO)
Fortive Corp. (FTV)	Comcast Corporation (CMCSA)
Pinnacle West Capital (PNW)	D.R. Horton, Inc. (DHI)
Danaher Corporation (DHR)	Fastenal Company (FAST)
Southwest Airlines Co. (LUV)	Intel Corporation (INTC)
QUALCOMM Inc. (QCOM)	Procter & Gamble Company (PG)
Dominion Energy (D)	T. Rowe Price Group (TROW)
Booking.com (BKNG)	Raytheon Tech. Corp. (RTX)
Hannon Armstrong Sustainable Infrastructure Capital, Inc. (HASI)	Chipotle Mexican Grill (CMG)
Becton, Dickinson and Co. (BDX)	Target Corporation (TGT)
American Tower Corp. (AMT)	Alphabet Inc. Class A (GOOGL)
Illinois Tool Works (ITW)	American Express Co. (AXP)
Square, Inc. Class A (SQ)	Honeywell Int'l Inc. (HON)
Ecolab Inc. (ECL)	Lowe's Companies, Inc. (LOW)
Snap-on Incorporated (SNA)	Splunk Inc. (SPLK)
Prudential Financial, Inc. (PRU)	Ulta Beauty Inc. (ULTA)
ServiceNow, Inc. (NOW)	Amazon.com Inc. (AMZN)
Facebook, Inc. (FB)	Emerson Electric Co. (EMR)
Home Depot, Inc. (HD)	BCE Inc. (BCE)
Apple Computer, Inc. (AAPL)	Tyson Foods (TSN)
Walmart Inc. (WMT)	Magellan Mid. Partners (MMP)
Starbucks Corporation (SBUX)	Lululemon Athletica Inc. (LULU)
Microsoft Corp. (MSFT)	CVS Healthcare Corp. (CVS)
Johnson & Johnson (JNJ)	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)
Lumentum Holdings, Inc. (LITE)
Stryker (SYK)
Phillips 66 (PSX)
Hormel Foods Corp. (HRL)
Public Storage (PSA)
DexCom Inc. (DXCM)
UnitedHealth Group Inc. (UNH)
LyondellBasell Industries NV (LYB)
Kimberly-Clark Corporation (KMB)
Caterpillar Inc. (CAT)
Molson Coors Beverage Co. (TAP)
Oracle Corporation (ORCL)
Winnebago Industries Inc. (WGO)
Tyson Foods Inc. (TSN)
Kimco Realty Corporation (KIM)
Weyerhaeuser Company (WY)
Zscaler, Inc. (ZS)
Fortinet Inc. (FTNT)
Palantir (PLTR)
Bank of New York Mellon (BK)
PulteGroup, Inc. (PHM)
Amphenol Corporation Class A (APH)
Discovery, Inc. Class C (DISCK)
Fox Corporation (FOXA)
Adobe Inc. (ADBE)
Arista Networks Inc. (ANET)
BJ's Wholesale Club (BJ)
AutoNation, Inc. (AN)
Dollar Tree, Inc. (DLTR)
Darden Restaurants, Inc. (DRI)
Charter Communications, Inc. (CHTR)
TJX Companies, Inc. (TJX)
Discover Financial Services (DFS)
O'Reilly Automotive, Inc. (ORLY)
NiSource Inc. (NI)
Exelixis, Inc. (EXEL)
Chubb Limited (CB)
Gilead Sciences, Inc. (GILD)
Hershey Company (HSY)
Interpublic Group of Companies, Inc. (IPG)
Zebra Technologies Corp. (ZRBA)
Lincoln National Corporation (LNC)
FMC Corporation (FMC)
National Instruments Corporation (NATI)
Newell Brands Inc. (NWL)
JM Smucker Company (SJM)
Darden Restaurants Inc. (DRI)
Adobe Inc. (ADBE)
Polaris, Inc. (PII)
Compass Minerals International, Inc. (CMP)
Electronic Arts Inc. (EA)
iRobot Corporation (IRBT)
Constellation Brands, Inc. (STZ)
Best Buy Co., Inc. (BBY)
CME Group Inc. Class A (CME)
Nasdaq, Inc. (NDAQ)
Bunge Limited (BG)
DTE Energy Company (DTE)
Southern Company (SO)
NextEra Energy, Inc. (NEE)

THE LAFFER TENGLER INVESTMENTS DISCIPLINE

Discipline is key to sustainable long-term total returns:

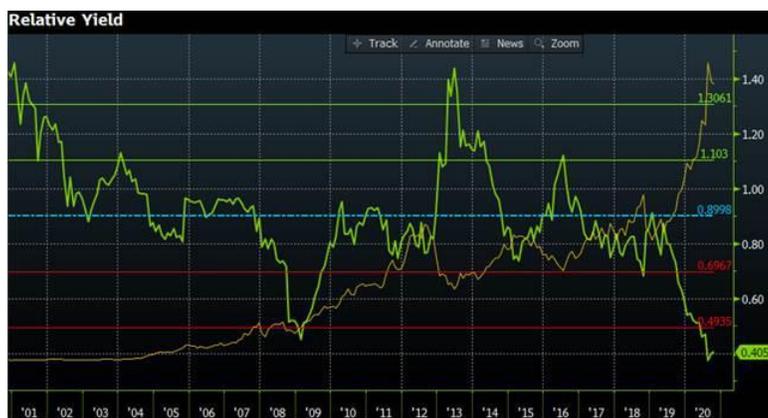
- At Laffer Tengler Investments we use two, time-proven stock valuation metrics (both pioneered by our team) that are consistent and robust indicators of value: Relative Dividend Yield (RDY) and Relative-Price-to-Sales Ratio (RPSR).
- Why not use earnings like almost everyone else? Because earnings are 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.

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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.

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