

LAFFER | TENGLER

INVESTMENTS

RESEARCH BULLETIN

Nancy Tengler, Chief Investment Officer

September 14, 2021

Markets at a Glance - Index Prices as of 09/10/2021

	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
S&P 500	4,458.58	0.49%	18.70%
Dow Jones Industrial	34,607.72	-1.86%	13.07%
MSCI World Index	3,122.07	0.73%	16.06%

Source: FactSet and Bloomberg



Currency: U.S. Dollar | Performance data as of: 10 Sep '21

Previous Close	4,458.58
52 Week High	4,536.95
52 Week Low	3,236.92
Change (%)	-
1 Day	-0.77
1 Week	-1.69
1 Month	0.49
3 Months	5.18
6 Months	14.36
YTD	18.70
1 Year	33.52
3 Year	54.97
5 Year	109.54
10 Year	286.28

Source: FactSet



Currency: U.S. Dollar | Performance data as of: 10 Sep '21

Previous Close	34,607.72
52 Week High	35,625.40
52 Week Low	26,501.60
Change (%)	-
1 Day	-0.78
1 Week	-2.15
1 Month	-1.86
3 Months	0.41
6 Months	7.15
YTD	13.07
1 Year	25.69
3 Year	33.84
5 Year	91.36
10 Year	214.84

Source: FactSet

VALUES AS OF 09/13/2021	CURRENT PRICE	ONE MONTH CHANGE	YEAR TO DATE CHANGE
10-Yr US Treasury Yld	1.3191	3.32%	44.64%
30-Yr US Treasury Yld	1.9031	-1.35%	15.69%
Dollar Spot Index (DXY)	92.623	-0.01%	2.99%
Crude Oil WTI	\$70.34	4.52%	44.97%
Crude Oil Brent	\$73.37	5.55%	41.64%
Natural Gas	\$5.241	32.89%	106.42%
Gold	\$1,793.35 (spot)	0.33%	-5.53%
Silver	\$23.77 (spot)	-0.30%	-9.96%
Copper (LME, cash)	\$9,684.50	2.64%	24.98%
Platinum	\$962.96 (spot)	-6.20%	-10.18%
Palladium	\$2,078.30 (spot)	-20.30%	-15.13%
Corn	\$499.00	-12.19%	3.09%
Wheat	\$671.50	-11.91%	4.84%

Source: Bloomberg

The Outlook for Equities

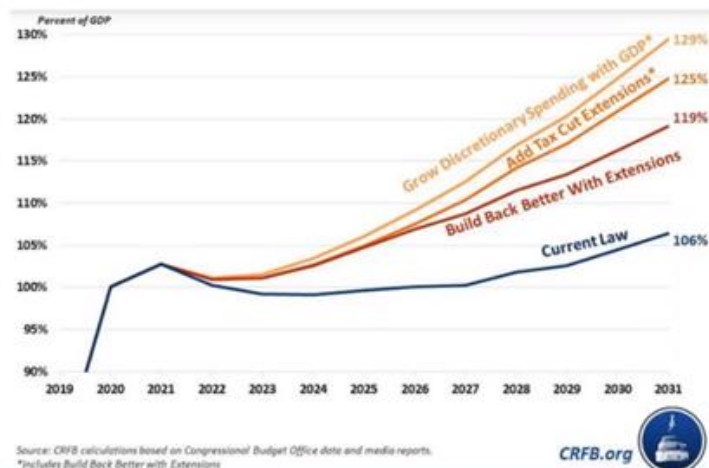
from Nancy Tengler, Portfolio Manager & Chief Investment Officer

I am often asked about the deficit spending and the seemingly rocketship trajectory of debt accumulating on the U.S. government's balance sheet. Is it a pending disaster? And my answer has been eventually, yes. But with historically low interest rates, debt servicing tends to be where policy makers and some economists are focused. Begging the question: can the Fed ever really raise rates?

Cornerstone Macro hosted their Virtual Macro Conference this week. One of the most interesting panels entitled Deficits, Debts, and Fiscal Policy Implications featured Douglas Holtz-Eakin, President of the American Action Forum and former Director of the Congressional Budget Office and Charles Seville, Senior Director, Co-head Americas Sovereign Ratings, Fitch Ratings. In July, Fitch downgraded its outlook on the U.S. to AAA, outlook: negative. One of the reasons? The U.S. government's inability to govern in a bi-partisan manner.

The biggest take-away was the chart below, which gives me pause. Currently, U.S. debt as a percent of GDP sits at 107.6%, a steady march over the last ten years when debt sat at 95.8% of total GDP and approaching the WWII era high of 118.9% of GDP. More important than the current level is the trend in spending coming out of Washington. The current "human capital" bill that the Democrats are planning to pass (in some form) on a partisan basis in reconciliation adds trillions of dollars of spending on top of the trillions of dollars in incremental (COVID inspired) spending in 2020. But that is only half the story—the \$3.5 trillion Build Back Better Plan, following the \$1.3 trillion American Rescue Plan—bill vastly expands the social contract without doing anything to solve the funding problems for Medicare and Social Security. Stay tuned.

DEBT OUTLOOK LIKELY MUCH WORSE THAN CURRENT LAW SUGGESTS



Don't let upcoming volatility scare you out of the market.

We have discussed our expectation around a correction. In the last two Tengler Reports, I have written about bad policy coming out of Washington. We are about to see that as the House intends to announce the Buy Back Better reconciliation plan on Monday (or thereabouts). During a recent Strategas Virtual Policy Conference with Dan Clifton, I took note of the following two charts.

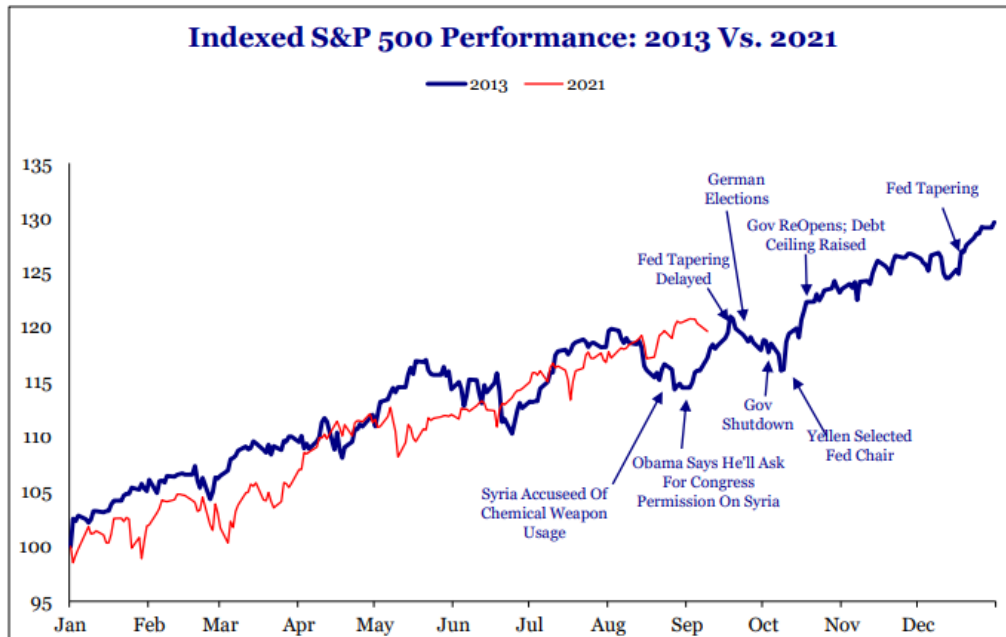
The most analogous period to today is September of 2013. Check out the chart below. The similarities are uncanny.

September 2021 Catalysts Look Similar To September 2013	
Sep-13	Sep-21
S&P 500 +14.5%	S&P 500 +20.5%
Fed Tapering Plan Rollout	Fed Tapering Plan Rollout
Bernanke Replacement	Powell Reappointment/Replacement
Syria Red Line Crossed	Afghanistan Withdrawal
Government Shutdown 9/30	Government Shutdown 9/30
Debt Ceiling (Mid-October)	Debt Ceiling (Late October)
ACA Exchanges Go Live (10/1)	\$3.5 Trillion Reconciliation Package

Source: Strategas, September 10, 2021

You can see that stocks corrected and then were off to the races. We have said a correction will be a buying opportunity. We still believe that, and the chart below reinforces that view.

Political Environment Is Ripe For Some Political Volatility This Fall



Source: Strategas, September 10, 2021

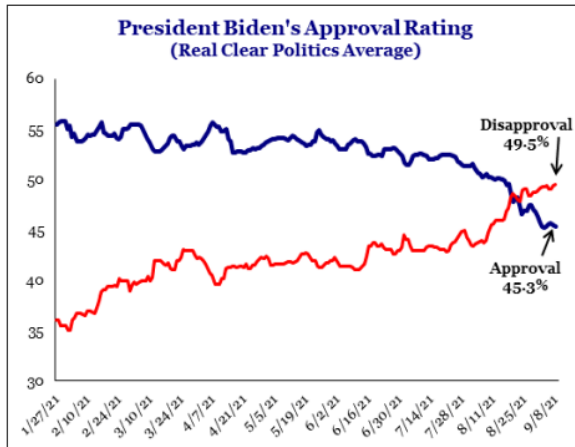
The Washington cohort just doesn't think like the rest of us. As presidential poll numbers decline, their legislative agenda becomes more ambitious. We expect to see the reconciliation bill announced Monday or Tuesday. Spending will be robust, but since the spending is spread over ten years, we will not see the stimulative inflationary growth we've seen from recent stimulus (though we expect inflation to be stickier, longer than the Fed is anticipating—we have written extensively about how wrong the Fed has been on inflation for the last decade), rather if the Build Back Better bill follows the blueprint laid out by the Biden Administration, corporations will see significant tax increases (likely to shave \$10/5% of S&P 500 earnings in 2022), and the economy will absorb a fiscal drag of about 8%. As we have written, growth is slowing, and we have been repositioning our portfolios accordingly.

Interestingly, the draconian estate tax proposals are unlikely to stick. Still too soon to know, but it is likely the step-up proposal will not be included (super important for everyone but especially small businesses and farms), though the estate tax is likely to be raised from 40% to 45% and the lifetime exemption to be phased down to \$7.5M-\$8M from \$11M today.

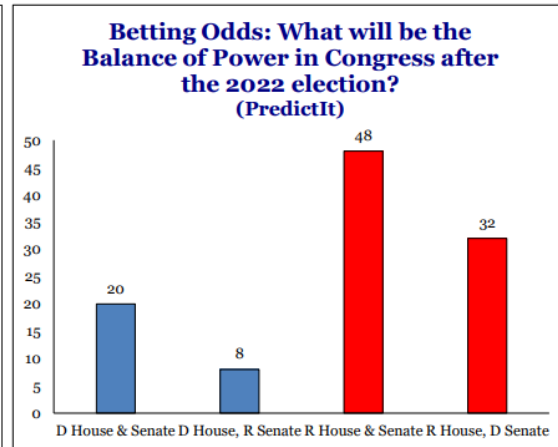
We may have Senator Kyrsten Sinema to thank for the moderation of the Biden Administration's estate tax proposal. According to Dan Clifton of Straegas, Senator Sinema is a self-proscribed champion of small business. During a recent Congressional recess, the Senator, who interned at a California winery—was one of the biggest opponents to the current proposal. She apparently understands the ramifications for small business and landowners. Encouraging to us. But hang on—we should know a great deal more in the next few weeks.

Biden Approval Ratings & Midterms Impacting The Next Fiscal Package

Midterm Elections Are Referendums On Presidents



Republicans Are 75% Favorites To Take The House In 2022



Source: Strategas, September 10, 2021

Bonds & Fixed Income

from Jason Weaver, CFA, Head Trader & Portfolio Manager

Since joining Laffer Tengler just over one year ago, we have generated modestly good returns and have been very successful versus our competitors with similar strategies achieving a 6th percentile rank according to the eVestment database. In the first half of this past year, this was due to our optimism in the resilience of the global economy, the progress on a vaccine, and unprecedented fiscal and monetary support by governments and global central banks. In the latter half, our approach has proceeded with quite a bit more caution, due primarily to the speed and strength of markets' recovery. Valuations are at historic highs and the supply of debt at negative yields is at a historic peak. To illustrate just how challenging market conditions have been as of late for fixed income investors, I came across a very descriptive twitter thread from earlier this year included below:



Guy LeBas ✓
 @lebas_janney

It's a snoozy Friday and bonds have been moving basically sideways for a couple of weeks here, so I haven't had much to say. That range on 10yr yields is <6bps wide.

(Incidentally, I think "sideways" is path of least resistance for while).

Mini-thread. 1/x

The thread continues, “I’m not sure what catalyst breaks this balance, but it’s probably a few months off, and my bet is the next move will be for somewhat higher rates. So what do we bond PM-types do when rates move sideways for a while?

We look for non-directional source of return, which fall into three broad categories:

- 1) Carry
- 2) Short vol
- 3) Roll-down

I’ll go through each quickly.

1. Carry is just the income generated by the yield of an instrument, often adjusted by financing cost. For example, the 30yr UST has a yield of 1.86%, financing is 5bps, so your carry is 181bps. Higher risk bonds generally have higher carry.
2. Short vol is selling options to collect premium. You can do this explicitly in listed ED/UST options or in OTC swaptions depending on your mandate. Or you can buy option-embedded bonds like MBS. Not a lot of juice in short rate vol right now, but it’s something.
3. Roll-down is the income generated by the passage of time over and above carry. It’s created when a bond goes from being discounted at a “x” yr interest rate to an “x-t” yr interest rate, where t is the passage of time. this is actually the most interesting to me at the moment. Roll-down is best when and where the yield curve is steep. The curve is steepest between the 5-7yr points with a yield differential of 33bps (17bps/yr) and 7yr USTs carry 71bps/yr

In a unch rates, 7yr UST total returns will run ~88bps/yr. DV01, a measure of risk, on a 7yr UST is \$670/mm; divide the two and the expected return/risk ratio on 7s is 0.13x. compared to 10s at 0.12x and 5s at 0.10x, and 7s are best prospect in flat rate scenario.

So that’s how at least one PM is thinking about allocating rates capital for the short term.”

Convertible Securities

from Stan Rogers, Portfolio Manager

News/Earnings of note:

The new issue calendar began to show signs of life following the official end of summer. A total of 5 deals were priced for proceeds of \$3.7 billion. Sea Ltd, a Singaporean company, comprised the bulk of this amount with a \$2.5 billion convertible bond. While these deals did not fit in our strategy, it is a positive development for the asset class.

Broadcom (AVGO), our last remaining holding to release earnings, reported positive Q3 results. Revenue and earnings were above expectations, and the company raised revenue guidance for Q4. Management made positive comments regarding momentum in their product portfolio and an improving enterprise demand environment.

Transactions:

The proceeds from the recent CNP.B sell were reallocated to the purchase of NiSource (NI) 7.75% mandatory convertible preferred. At purchase, this security has a 7.3% current yield and a 20% conversion premium. Trading on a mid-70s delta, it will provide a +20%/-15% return on a +/- 25% move in the underlying common. S&P rates the security BBB-, has life until 3-1-24, and out-yields the underlying common by 3.8%.

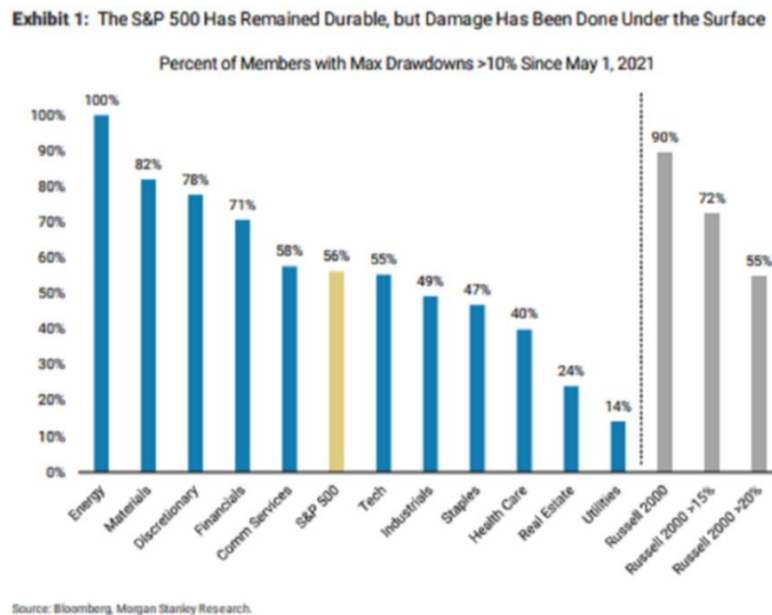
International Flavor & Fragrances (IFF) 6% mandatory convertible preferred was sold. The security mandatorily matures/converts on 9-15, and we exited the position prior to this date.

Equity Hedging

from David Jeffress., Portfolio Manager

We are fully hedged in our Equity Hedge strategy, and as of this week, we hold put option contracts against over one million shares of the SPY exchange-traded fund. Some of these contracts will expire before the end of the month, with the balance set to expire by mid-October if they are not monetized. Any liquidation in these contracts would likely begin to happen if the S&P 500 were to fall back towards the 4,000 level.

As of Friday, September 10, the S&P 500 has fallen for five straight days while remaining within 2% of its all-time high, which is unusual. Interestingly, while the S&P 500 as an index remains resilient, a growing number of individual companies have already experienced a 10% correction from their recent highs (as illustrated in the chart below from Morgan Stanley by way of Bloomberg).



We remain optimistic that the equity markets will continue their ebullience as we head into the fourth quarter, with market fundamentals remaining extremely supportive, but the contracts we have accumulated allow us to remain fully invested across our equity strategies while still being mindful of the potential for a meaningful sell-off in equities.

Global Revolution

from Jonathan Berkowitz, Securities Analyst

The Global Revolution strategy has utilized exchange traded funds (ETFs) to build a portfolio that offers global diversification of green infrastructure, emerging technologies and energy with a particular emphasis on metal miners that produce the materials necessary to achieve planetary decarbonization.

When creating the portfolio, we concluded the metal miners would benefit from the increased demand and decreased supply of metals needed as the world transitions to clean energy and green infrastructure. The chart below proves we were right, with the exception of iron ore and silver. The price of iron ore has decreased 27% over the last month, due to China's decreased demand and increased supply as the country continues to release reserves to help curb commodity prices. Silver has been inversely correlated with the dollar and has yet to diverge based on its contribution to the production of solar panels and solar cells. Overall, the surge in critical commodity prices has been spectacular.

Metals	Price (2/2/21)	Price (8/24/21)	% Change	5-Year High	5-Year Low
Aluminum (USD/MT)	1969.00	2629.00	33.52%	2629.00	1426.50
Copper (USD/MT)	7798.50	9378.50	20.26%	10448.50	4595.00
Gold (\$/oz.)	1833.39	1794.41	-2.13%	2063.54	1128.38
Iron Ore (CNY/MT)	1261.00	926.53	-26.52%	1531.26	365.32
Nickle (USD/MT)	17860.00	19073.50	6.79%	19833.00	8735.50
Silver (\$/oz.)	26.76	23.70	-11.43%	29.13	11.98
Steel (CNY/MT)	4001.00	5233.00	30.79%	6003.00	40001.00

• Source: Strategas Investment Strategy Report Tue. Feb 2, 2021 – Jason DeSena Trennert / Ryan Grabinski

• Bloomberg spot prices – 8/24/21

• *Prices as of February 2nd, 2021 and August 24th, 2021

The overarching goal of Global Revolution is to have an overweight position in copper and equal weighted positions in gold, silver, palladium, iron ore and steel. Copper is a key ingredient for the planetary decarbonization theme (transportation electrification, power decarbonization and infrastructure expansion). We have analyzed our metal exposure since inception and have seen a major shift in holdings within the exchange traded funds causing unintended and unwanted overweights in specific metals. Happily, we caught it quickly and have made the decision to move into individual securities. This will give us the ability to act quickly if needed in dynamic market environments and to target our exposure precisely.

	Gold	Silver	Platinum	Palladium	Copper	Iron Ore	Steel	Aluminum
Proposed	5.00%	5.00%	0.00%	5.00%	15.00%	5.00%	5.00%	0.00%
Current	13.76%	3.12%	0.31%	9.04%	2.23%	3.15%	2.67%	0.58%

* Bloomberg data from PICK, RING, PALL, and SLVP on 8/23/21

* Percentage represents % of total portfolio

We have developed a tool which allows us to determine our exact metal exposure per security based on the percentage of total revenue. By knowing the exact breakdown by security, we can set specific guidelines to achieve a targeted overall metal exposure for the entire portfolio.

In order to reduce our exposure to gold, we are selling our positions in the iShares MSCI Global Metal and Mining Producers ETF (PICK), the iShares MSCI Global Gold Miners ETF (RING) and the iShares MSCI Global Silver Miners ETF (SLVP), which recently added significant exposure to gold. The Aberdeen Standard Physical Palladium Shares ETF (PALL) will be trimmed to maintain proper palladium exposure.

The initial change will include nine mining companies; Freeport-McMoRan Inc., Vale, Steel Dynamics Inc., Southern Copper Corporation, Reliance Steel & Aluminum Company, Cleveland-Cliffs Inc., Wheaton Precious Metals Corp., Pan American Silver Corp., and Turquoise Hill Resources. The benefit of shifting away from ETFs and into individual securities is that we can get away from over diversification and consolidate our positions in high quality names. A 12-Factor Analysis has been completed on all new positions.

<u>Ticker</u>	<u>% Position</u>	<u>Gold</u>	<u>Silver</u>	<u>Copper</u>	<u>Iron Ore</u>	<u>Steel</u>
FCX	6.00%	12.99%	0.68%	81.93%	0.00%	0.00%
VALE	4.00%	0.00%	0.00%	5.49%	80.84%	0.00%
STLD	3.00%	0.00%	0.00%	0.00%	0.00%	79.55%
SCCO	6.00%	0.00%	0.00%	100.00%	0.00%	0.00%
RS	2.00%	0.00%	0.00%	0.00%	0.00%	100.00%
CLF	2.00%	0.00%	0.00%	0.00%	100.00%	0.00%
WPM	2.00%	59.50%	36.49%	0.00%	0.00%	0.00%
PAAS	5.00%	40.00%	60.00%	0.00%	0.00%	0.00%
TRQ	5.00%	22.64%	1.41%	73.95%	0.00%	0.00%
<u>Totals</u>	<u>35.00%</u>	<u>5.10%</u>	<u>3.84%</u>	<u>14.83%</u>	<u>5.23%</u>	<u>4.39%</u>

*Source: Bloomberg and FactSet

* Percentage of metal = percentage of revenue

* Total percentage represents percentage of portfolio

Nancy Tengler's Recent USA Today Articles

[Consider These Three Investments To Add To Your Portfolio](#) (Aug 24)
[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

[Nancy Tengler Talks GARP Stocks](#) (CNN, September 8)
[Digital Economy Growth - Assessing Market Valuation Measures](#) (TD AmeriTrade, September 3)
[Will Weakening Data Wreck The Rally](#) (CNBC, September 3)
[S&P 500 Financials Up In August Will It Continue In September](#) (CNBC, September 1)
[Why- Nancy Tengler Likes Honeywell And Salesforce Stock](#) (CNBC, September 1)
[Sector-By-Sector Stock Showdown With Nancy Tengler](#) (CNBC, August 25)
[Nasdaq And S&P 500 Close At Record Highs](#) (CNBC, August 25)
[Experts Weigh In On Market Concerns Amid Afghanistan Conflict](#) (Fox Business, August 23)
[Two Traders Share The Sectors They're 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 AmeriTrade, 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)

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)	Lululemon Athletica Inc. (LULU)
ServiceNow, Inc. (NOW)	CVS Healthcare Corp. (CVS)
Facebook, Inc. (FB)	Taiwan Semi. Manuf. Co. (TSM)
Home Depot, Inc. (HD)	Truist Financial Corp. (TFC)
Apple Computer, Inc. (AAPL)	Lockheed Martin Corp. (LMT)
Walmart Inc. (WMT)	BHP Group (ADR) (BHP)
Starbucks Corporation (SBUX)	Lumentum Holdings, Inc. (LITE)
Microsoft Corp. (MSFT)	NVR, Inc. (NVR)
Johnson & Johnson (JNJ)	Twitter, Inc. (TWTR)
Cisco Systems, Inc. (CSCO)	Freeport-McMoRan, Inc. (FCX)
Amgen Inc. (AMGN)	Dominion Energy, Inc. (D)
JPMorgan Chase & Co. (JPM)	Trimble Inc. (TRMB)
Texas Instruments Inc. (TXN)	Littelfuse, Inc. (LFUS)
United Parcel Service, Inc. (UPS)	Jacobs Engineering Group (J)
McDonald's Corporation (MCD)	Air Prod. and Chemicals (APD)
PepsiCo, Inc. (PEP)	Steel Dynamics Inc. (STLD)
Medtronic Plc (MDT)	BorgWarner, Inc. (BWA)
Dominion Energy (D)	Lear Corporation (LEA)
PNC Fin. Serv. Group, Inc. (PNC)	Exelon Corporation (EXC)
BlackRock, Inc. (BLK)	L3Harris (LHX)
Roku, Inc. (ROKU)	Corning Inc. (GLW)
Chevron Corporation (CVX)	Diamondback Energy (FANG)
Lam Research Corp. (LCRX)	EOG Resources, Inc. (EOG)
II-VI Incorporated (IIVI)	Splunk, Inc (SPLK) – convertible
3M Company (MMM)	Oracle Corporation (ORCL)
Roku, Inc. (ROKU)	Unilever (UL)
Coca-Cola Company (KO)	AES Corp. (AES) – convertible
Comcast Corporation (CMCSA)	Martin Marietta Materials, Inc. (MLM)
D.R. Horton, Inc. (DHI)	Americold Realty Trust (COLD)
Fastenal Company (FAST)	Xylem Inc. (XYL)
Intel Corporation (INTC)	Quest Diagnostics Incorporated (DGX)
Procter & Gamble Company (PG)	Viacom CBS (convertible)
T. Rowe Price Group (TROW)	Winnebago Industries Inc. (WGO)
Raytheon Tech. Corp. (RTX)	Twitter Inc. (TWTR) - convertible
Chipotle Mexican Grill (CMG)	Enbridge (ENB)
Target Corporation (TGT)	Vertex Pharmaceuticals (VRTX)
Alphabet Inc. Class A (GOOGL)	Lumentum Holdings, Inc. (LITE)
American Express Co. (AXP)	Stryker (SYK)
Honeywell Int'l Inc. (HON)	Phillips 66 (PSX)
Lowe's Companies, Inc. (LOW)	Hormel Foods Corp. (HRL)
Splunk Inc. (SPLK)	Public Storage (PSA)
Ulta Beauty Inc. (ULTA)	DexCom Inc. (DXCM)
Amazon.com Inc. (AMZN)	UnitedHealth Group Inc. (UNH)
Emerson Electric Co. (EMR)	LyondellBasell Industries NV (LYB)
BCE Inc. (BCE)	Kimberly-Clark Corporation (KMB)
Tyson Foods (TSN)	Caterpillar Inc. (CAT)
Magellan Mid. Partners (MMP)	Molson Coors Beverage Co. (TAP)

Oracle Corporation (ORCL)
Winnebago Industries Inc. (WGO)
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)
Palantir (PLTR)
Bank of New York Mellon (BK)
PulteGroup, Inc. (PHM)
Weyerhaeuser Company (WY)
Zscaler, Inc. (ZS)

Kimco Realty Corporation (KIM)
Tyson Foods Inc. (TSN)
Fortinet Inc. (FTNT)
Amphenol Corporation Class A (APH)
Discovery, Inc. Class C (DISCK)
Fox Corporation (FOXA)
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)
NiSource Inc. (NI)
Anglo American Plc ADR (NGLOY)
Vale S.A. Sponsored ADR (VALE)
First Quantum Minerals Ltd. (FQVLF)
Southern Copper Corporation (SCCO)
Reliance Steel & Aluminum Co. (RS)
Cleveland-Cliffs Inc. (CLF)
Wheaton Precious Metals Corp. (WPM)
Pan American Silver Corp. (PAAS)
Turquoise Hill Resources Ltd. (TRQ)

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.

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