

May 7, 2024

Markets at a Glance (Index Prices as of 5/3/2024)

	Current Price	One Month Change	Year to Date Change
S&P 500	\$5,127.7900	-1.61	7.50
Dow Jones Industrial	\$38,675.6800	-1.15	2.62
MSCI World Index	\$3,361.4100	-1.41	6.07
Bloomberg US Convert Bal TR	\$360.0662	-0.94	-2.35
Bloomberg US Aggregate Index	\$2,117.5200	-0.51	-2.06
S&P Global Clean Energy	\$882.4600	0.05	-11.73

Source: FactSet and Bloomberg

Markets at a Glance (as of 5/3/2024)

Values	Current Price	One Month Change	Year to Date Change
Dollar Spot Index (DXY)	105.0290	0.77	3.60
Crude Oil WTI	\$78.1300	-8.78	9.53
Crude Oil Brent	\$82.9300	-7.40	7.59
Natural Gas	\$2.1470	16.49	-14.02
Gold	\$2,310.9000	0.56	11.54
CBOE Silver	\$26.5000	-3.00	10.30
Copper	\$457.0500	8.50	17.45
Platinum	\$964.9000	2.78	-2.97
Palladium	\$951.5000	-7.17	-13.97
Corn	\$447.0000	3.41	-5.05
Wheat	\$606.0000	8.99	-3.62

Source: Bloomberg 5/3/2024

S&P 500



Currency: U.S. Dollar | Performance data as of: 03 May '24

Source: FactSet

Dow Jones Industrial



Currency: U.S. Dollar | Performance data as of: 03 May '24

Source: FactSet

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The securities identified and described do not represent all of the securities purchased, sold, or recommended by advisory clients, and it should not be assumed that investments in the securities were or will be profitable.

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Russell 1000 Value



Currency: U.S. Dollar | Performance data as of: 03 May '24

Source: FactSet

Russell 1000 Growth



Currency: U.S. Dollar | Performance data as of: 03 May '24

Source: FactSet

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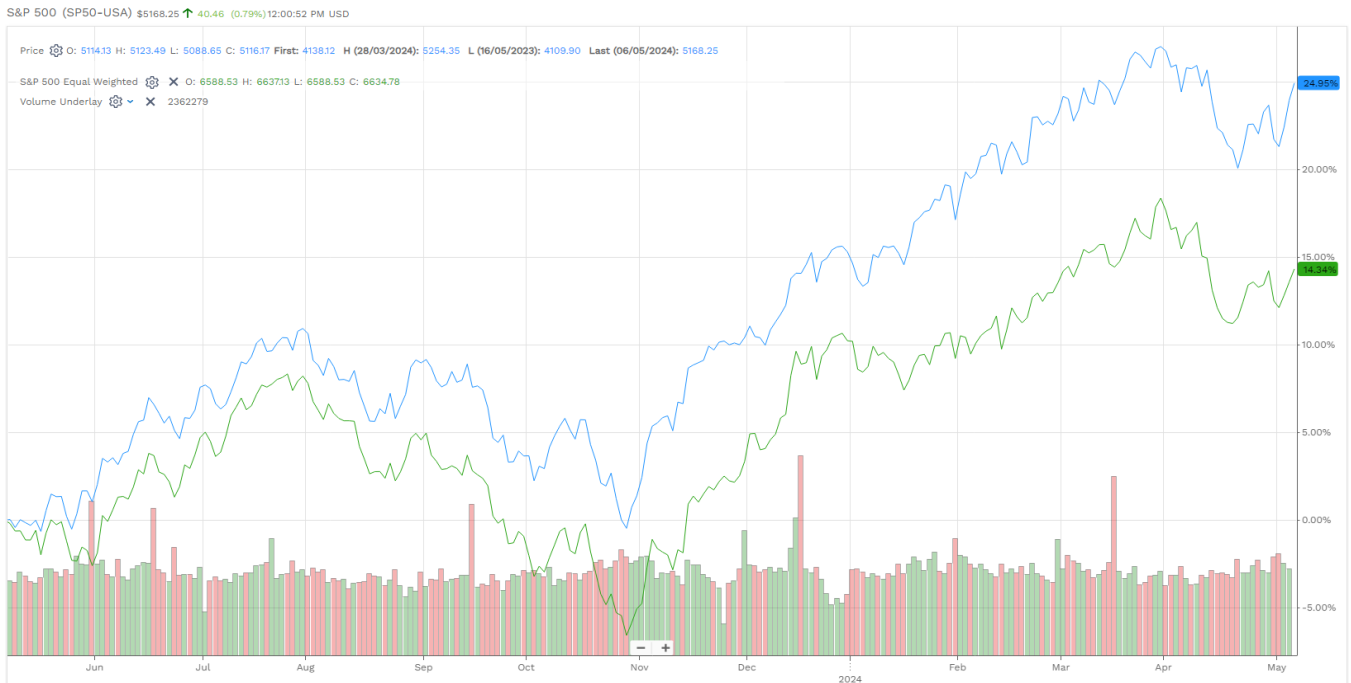
NASDAQ Composite Index



Currency: U.S. Dollar | Performance data as of: 03 May '24

Source: FactSet

S&P 500 Index vs. S&P 500 Equal-Weighted Index (1 year)



Source: FactSet

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LAFFER TENGLER EQUITY INCOME ETF

Laffer Tengler investments launched an ETF in partnership with Tuttle Capital Management called, **The Laffer Tengler Equity Income ETF (SYMBOL: TGLR)**.

TGLR follows our flagship Equity Income Strategy managed by Nancy Tengler.

Please click [here](#) or visit tglretf.com to learn more about **TGLR** or call us at **800.838.3468**.

EQUITIES

from Nancy Tengler, CEO & Chief Investment Officer

Looks like we got our correction. So let me share the following quote from Peter Bernstein: “No matter how calm you are, no matter how long term an investor you are, no matter what your horizons, when the market is jumping around, you feel uncertainty in your gut and it’s hard to resist that.”

So let us resist for you! And remember the LTI mantra: “Volatility is the friend of the long-term investor.”

We wrote two weeks ago that we thought the labor market was softening and if that continued the Fed would likely cut. We cited the decline in full-time jobs year over year through March of -284K, a decline in average hours work, a decline in wages and an increase in part-time jobs. Since then, the following has transpired:

- **Fed Meeting:** At the meeting, Chairman Powell suggested that if the labor market softened the Committee stood ready to cut (my paraphrase). This is the first time in my recollection that the Chairman has mentioned the dual mandate for quite some time.
- **ISM Manufacturing employment:** the most recent report continues to show a contractionary hiring environment.
- **Non-Farm Payrolls:** today’s report came in softer than expected and the previous report of 303K (revised up to 315K) was comprised primarily of strong increases in the non-growth segments of the economy: leisure, government and healthcare. Today’s number came in much lower than expected at 175k versus 240K, the unemployment rate ticked up, average hourly earnings on a month over month and year over year basis came in lighter than expected and declined from the previous periods, and the average weekly hours worked also declined further. Add to that the labor force participation rate didn’t budge.

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We believe our expectation that the labor market is softening provides some cover for the Fed to potentially cut at some point this year. Regardless we remain focused on our analogy to the 1990s where productivity saved the day and robust stock price performance coexisted with a 10-year that averaged 5%-7% throughout the decade. Whether the Fed cuts rates or not we believe the bull market is intact. (Though yesterday's nonfarm productivity slowed from the previous quarter, it was largely expected. Productivity is notoriously volatile, and we continue to believe that record levels of spending on productivity improving technologies will continue to drive growth without accelerating inflation.)

And you thought golf was frustrating!

“Investing involves living in a perpetual state of dissatisfaction. If you buy a stock and it goes up you didn't buy enough and if you buy a stock and it goes down you bought too much.”
Source? Nancy Tengler.

At Laffer Tengler we often say that some of the best work we do for our clients is the stocks we never owned in the first place or names we exited due to poor fundamentals who deteriorated. (Contact LTI if you would like to review the list.) But we also make mistakes and sometimes get caught in a stock which surprises in a negative way and gets clobbered by investors.

Starbucks delivered a Venti sized Q1 earnings miss last week. The call was a disaster and we wondered why the company didn't pre-announce the miss on earnings as is the custom. A woman scorned has nothing on Wall Street analysts surprised by a Molotov cocktail lobbed at their earnings models in real time. SBUX missed epically on earnings and revenue, missed on same store comps not only in China but the U.S. as well, then added a cherry on top with significantly lower guidance for the rest of the year. This was good enough for a negative -16% move on the stock in one day after lagging the market over the previous year. It was just last quarter that the leadership team guided to 15%-20% earnings growth for the year. New guidance is in the mid-single digits.

Our proprietary 12 Fundamental Factor research process relies heavily on a strong and competent management team. The new SBUX CEO, Laxman Narasimhan, was hand-picked and mentored by former CEO (and 5th largest shareholder), Howard Schultz. The company has stumbled badly twice in its history (more about that below). In both instances the storied Schultz returned to set things right. We have no idea if Schultz has the interest or the juice to return but he took to LinkedIn on Sunday to suggest a strategy for the company. Just a little friendly advice? We think not. This drama is reminiscent of another iconic CEO, Bob Iger of Disney, who handpicked his successor and then pulled his support a short time later. The successor was gone with breathtaking speed. We doubt Laxman survives this debacle. Less because the company missed and more because he couldn't seem to own it on the earnings call. A deer in the headlights interview with CNBC's Jim Cramer didn't help his case.

The difficult decision for investors is what to do with a great company with an iconic brand when the strategy has failed and particularly when a new CEO has failed. In the second edition of my book *The Women's Guide to Successful Investing*, I cited a personal case study of Starbucks which I purchased in April of 2007. The example is entitled "When Starbucks Got Roasted, I Bought the Stock." In that example Schultz did indeed return to the company and then the Great Financial Crisis hit and the market sunk like a stone, dragging Starbucks with it. The stock hit bottom at split adjusted price of \$4.73 on 12/31/2008. Eventually good things happen to the bad stocks of great companies. The stock has produced an annualized return of 21.4% even given the recent underperformance. (The market is up 14.3%.)

We are reassessing our holding in SBUX which includes the management team and the catalyst for outperformance (which may, in fact, be Narasimhan's departure). We will keep you posted. The LTI Equity Income Strategy Team is furiously researching the potential next steps in the stock. Until then we are living in a perpetual state of dissatisfaction and are invested right alongside you in the strategy. Like hitting a golf shot into a hazard area we will endeavor to turn this potential bogey into a par.

EARNINGS

from Jamie Meyers, CFA®, Senior Securities Analyst

Twins

If you're like me and you remember the 1988 movie *Twins* with Arnold Schwarzenegger and Danny DeVito, you may recall that twins don't always look alike. But it's not the movie we're going to discuss (though there has been recent chatter of a sequel). Instead, we're talking about "digital twins" – "a digital model of a real-world object, system, or process that is used for simulation, testing, maintenance, monitoring, and integration" (thank you, Google AI, for the definition). The AI continued, "They use machine learning, simulation, and reasoning to help make decisions. Digital twins can ingest data from real-world sensors and update with real-time information via the cloud." And they exactly mirror the intended subject – much more so than the Hollywood duo.

So, let's look across industries to see how companies are using the not new, but more advanced, tech.

Broadcom (ticker: AVGO) recently partnered with VIAVI Solutions to develop digital twins for telecommunications networks in hopes of offering advanced predictive capabilities. Additionally, its \$70 billion acquisition of VMWare was motivated by a similar technology – virtualization (whereby VMWare would help customers optimize IT networks, in particular, cloud). The only difference is that a digital twin allows for collection and processing of data in *real time*.

Chevron (ticker: CVX), according to its website, “is creating virtual replicas of some of its facilities to diagnose and predict real-world situations... digital twins provide two important functions by: (1) Giving workers rapid and remote access to data. This helps streamline work processes, drive insights, and diagnose issues. (2) Helping monitor and optimize equipment. This helps engineers predict the future state of facilities and adjust to improve performance.” It’s almost akin to a modern-day crystal ball.

Johnson & Johnson (ticker: JNJ) is using digital twins to develop personalized cancer treatments – it creates models of how cancer cells respond to various trials. It is also using digital twins to set up virtual environments for R&D in medical devices – it ingests data to identify potential problems with designs before they are actually built. These twins also allow for virtual training for the likes of surgeons.

Tesla (ticker: TSLA) doesn’t replicate makes or models of vehicles sold. It replicates EVERY SINGLE CAR it sells (1.8 million cars in 2023, 1.8 million digital twins). These twins collect and process enormous amounts of data – driving statistics, sensor readings, operational conditions, etc. Insights garnered from the data allow Tesla to improve performance and predict maintenance needs, permitting the company to send software updates when necessary. Moreover, data collected allow Tesla to improve on battery life and autonomous functionality – two outstanding endeavors.

Walmart (ticker: WMT) uses digital twins to optimize store layouts – creating a virtual representation is much easier than physically moving stuff around. It also uses the technology in its inventory management system – it creates a virtual store with virtual inventory and simulates various scenarios (in essence, digital twins of customer and employee behaviors). In doing so, it allows the company to better manage seasonal fluctuations, supply chain constraints, and even product positioning and restocking strategies.

While these are only a few of our portfolio holdings, we see digital twins and broader AI technologies being used everywhere, anywhere, all at once. So, as our CEO Nancy Tengler said in our last Research Bulletin, “We reiterate our investing theme of old economy companies embracing this new industrial revolution of digitization, generative AI, cloud computing, and the suppliers of the picks and shovels.”

EARNINGS

from Byron Anderson, Fixed Income

Fixed Income markets:

We are seeing large demand in the front end for Treasuries. The 3mo and 6mo auctions were both very strong even in the face of record offering size. The two-year moved from a six-month high of 5.046% to 4.81% and the ten-year from 4.706% to 4.485% over the last week. We have a

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tale of two markets right now, with yields increasing when we get elevated inflation data and decreasing when we have increasing unemployment or slowing job growth. The Fed announced it is slowing balance sheet runoff to \$25Bn a month from \$60Bn, which should cause a firming of the Treasury market short term. Ultimately, we are in an increasing yield trend with inflation data as the priority but with consumers showing recent weakness, we are cautious.

The 800 lb. gorilla in bond markets is the Fed and potential cuts. Fed Funds rates are now pricing in the first rate cut in November, being pulled up from December. Please remember the initial rate cut was supposedly March, then June, then December and now November. Don't put much weight on priced in rate cuts for now until we see GDP or inflation data that forces the Fed's hand. I highly doubt we will see any Fed moves before the upcoming election. Fed Chair Powell will not want to wade into the politics of a rate cut before the election without an explicit catalyst. Expect some short-term volatility of yields as data comes out.

EARNINGS

from Alex Van Iderstine, CFA[®], Securities Analyst

Alphabet Inc. (Ticker: GOOGL) reported Q1 earnings last week, with a beat on the top and bottom line, driven by solid quarters from search, YouTube, and cloud. More impressive, the company reported nearly 350 bps of margin expansion in Q1 by casually beating consensus operating income by \$3.3 billion. Early concerns around the effects of AI on GOOGL's core search business (*14% growth in Q1*) were quickly put to bed, as the company reported the new introduction of AI features overlaying search have shown impressive early results, expanding queries, driving richer signal, and leading to increased engagement by users. Moving forward, management noted they're confident they'll be able to manage the AI transition for search without compromising monetization. Cloud growth reaccelerated (+28%) and YouTube (+20%) continues to chug along as the company continues to integrate Gemini throughout each segment. Management suggested both cloud and YouTube combined, could exit the year at a \$100 billion run-rate. Last but certainly not least, the company announced a new \$70 billion share repurchase plan, on top of initiating a quarterly dividend of \$0.20 per share. It appears GOOGL may not be as far behind in the AI arms race as we thought.

Microsoft Corp. (Ticker: MSFT) delivered strong Q3 results last week beating on both the top and bottom line. Revenue of \$61.86 billion, up 17% YoY, was headlined by Azure's +31% growth in the quarter, coupled with guidance of 30-31% growth in Q4 as well. It's important to note the bulk of Azure growth came from non-AI accelerations, including new workload activity and increased migrations. AI did add around 7 points to Azure growth, but management explained that capacity constraints hindered its overall performance and most of the company's increase capex spend will go towards increasing Azure's AI capacity heading into Q4 and fiscal year '25. Large deal momentum was also noteworthy with \$100+ million and \$10+ million Azure deals up 80% and 100% respectively year over year. Both sizes supported by commercial bookings accelerating to 31%, marking the highest acceleration for MSFT in 7 quarters. Copilot

adoption is strong as nearly 60% of the fortune 500 companies now use Copilot, several of which have purchased over 10k seats. In total, Copilot is now available on nearly 225 million windows PCs, nearly double the amount from last quarter. In a few weeks MSFT will hold a special event highlighting the company's vision for AI across windows and devices for fiscal year '25 and beyond.

EARNINGS

from Tayo Adeyi, Securities Analyst

Xylem Inc. (ticker: XYL) released impressive 1st quarter 2024 results, supported by strong volumes, productivity savings and a healthy price mix. Revenue was up 40.4% year-over-year, driven largely by Measurement & Control Solutions (M&CS) and Water Solutions & Services (WSS), as the company witnessed growth in all regions led by double digit growth in the U.S. Management remains committed to achieving its five strategic initiatives communicated at the beginning of 2024, and is happy with the progress so far. This includes the continued integration of Evoqua to capture value, supporting the WSS segment, and expected to accumulate an estimated \$100mn in cost synergies in 2024. Moreover, implementation of the 80/20 initiative across all business segments has started impacting productivity and volumes positively. Given recent strong results, management raised guidance for the full year 2024 to \$8.5bn in revenues and a range of \$4.10-\$4.25 for earnings per share.

CONVERTIBLES

from Stan Rogers, Portfolio Manager

Notable earnings/news reports:

Tyler Technologies (TYL) reported solid Q1 results. The company beat estimates on both the top and bottom line. Additionally, the company raised their full year revenue outlook. Tyler is a software company that provides information management solutions to state and local governments. Management expressed confidence for the year, as their pipeline and public sector budgets remain healthy.

DexCom (DXCM) also reported an impressive Q1. Earnings and sales were above guidance and the company raised sales estimates for the full year. The stock had a somewhat negative reaction to the results, as many were expecting a larger beat and an increase in estimates. The outlook could prove conservative, however, as the company has a new over-the-counter continuous glucose monitoring (CGM) device called Stelo that should be released this summer, and the company expects more CGM device sales from new patient starts.

Albemarle (ALB), one of the newer additions to the portfolio, released Q1 results. Though earnings were a little light versus consensus, sales were above guidance. While supplies of

lithium have increased and the growth in demand for electric vehicles has slowed, expectations are that the price of lithium has troughed. ALB is a global leader in the lithium industry and will benefit as the price of lithium recovers.

Booking Holdings (BKNG), the parent company of Priceline.com and other travel-related sites, had solid results for Q1. The company beat on gross bookings, earnings, and revenue. Guidance was conservative due to the Middle East conflict headwinds. International travel and the consumer demand remains resilient.

Transactions for this period:

On May 2nd, **Exxon (XOM)** closed their acquisition of **Pioneer Natural Resources (PXD)**. We currently own the PXD 0.25% convertible bond. While there has been no official corporate action issued, the assumption is that the PXD bond will be convertible into **XOM**, and the new conversion rate based upon the cash per share that XOM offered to complete the acquisition. We are awaiting the corporate action notice, but this bond will eventually be sold.

NANCY TENGLER'S RECENT MEDIA APPEARANCES

[Tengler: Asking Investors For Patience Is Never A Good Plan](#) (April 25)
[Tengler: Tesla Megapack Is Compelling](#) (April 24)
[Tengler On Tesla: Look For Company's Pivot Points](#) (April 23)
[Tengler On Bloomberg Radio: Digitization Will Drive Earnings Growth](#) (April 23)
[Tengler: This Is Not The American Way](#) (March 29)
[Tengler On Boeing CEO Exit](#) (March 26)
[Tengler On Fox Business: We've Got To Rest A Bit](#) (March 25)
[Tengler: Don't Go Chasing NVIDIA FOMO](#) (March 23)
[Tengler: People Are Worried About Inflation](#) (March 15)
[Tengler: We're Seeing Dramatic Gains](#) (March 11)
[Tengler: Women Are Better Investors Than Men](#) (March 8)
[Is This The 90s? Tengler Says "Yes"](#) (March 7)
[Tengler On Stock Market Rally: So Many Similarities To The 90s](#) (March 5)
[Tengler: Musk's Lawsuit Against OpenAI Is Distraction](#) (March 1)
[Tengler: A Lot Of Reasons To Be Optimistic](#) (February 29)
[Tengler Joins Kudlow To Talk AI](#) (February 24)
[Tengler Insights On Magnificent 7](#) (February 23)
[Tengler: The 12 Best Ideas Portfolio](#) (February 9)
[Tengler: Don't Fight AI](#) (February 8)
[Tengler: The Market Isn't Listening To The Fed](#) (February 6)
[Tengler On Spirit AeroSystems: I Think There's A Big Problem Here](#) (February 5)
[Tengler: Microsoft Is A-Must Hold Name](#) (February 1)
[Tengler: Not All Tech Companies Are Created Equal](#) (January 22)
[Tengler: You've Got To Own The Tech Names](#) (January 19)
[Tengler: Soft Landing Is Possible](#) (January 15)
[Tengler: Look For Great Companies Pivoting To The Digital Revolution](#) (January 5)

ARTHUR LAFFER, JR. RECENT MEDIA APPEARANCES

[Arthur Laffer Jr. On CNBC.Com: A Decade Of Debt](#) (February 7)
[Unpacking The Latest Fed, Stock Market Moves With Arthur Laffer Jr.](#) (July 5, 2023)
[Arthur Laffer Jr. For Barron's: Fed Minutes Come Tomorrow. Here's What To Watch](#) (May 23, 2023)
[Arthur Laffer Jr. Comments on Fox Business: ETF's To Play Around The Debt Default Risk](#) (May 18, 2023)

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COMPLETED ANALYSIS ITEM(S) FOR PORTFOLIO COMPANIES

Home Depot, Inc. (HD)
Facebook, Inc. (FB)
Walmart Inc. (WMT)
Apple Computer, Inc. (AAPL)
Microsoft Corp. (MSFT)
Starbucks Corporation (SBUX)
Broadcom Inc. (AVGO)
FedEx (FDX)
Intl. 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)
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)
PNC Fin. Serv. Group, Inc. (PNC)
BlackRock, Inc. (BLK)
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)
NVR, Inc. (NVR)
Twitter, Inc. (TWTR)
Freeport-McMoRan, Inc. (FCX)
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
Unilever (UL)
AES Corp. (AES) – convertible
Americold Realty Trust (COLD)
Xylem Inc. (XYL)
Quest Diagnostics Inc. (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)
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)
Arista Networks Inc. (ANET)
BJ's Wholesale Club (BJ)
AutoNation, Inc. (AN)
Dollar Tree, Inc. (DLTR)
Charter Communications, Inc. (CHTR)
TJX Companies, Inc. (TJX)
Discover Financial Services (DFS)
O'Reilly Automotive, Inc. (ORLY)
Exelixis, Inc. (EXEL)
Chubb Limited (CB)
Gilead Sciences, Inc. (GILD)
Hershey Company (HSY)
Interpublic Group of Companies (IPG)
Zebra Technologies Corp. (ZRBA)
Lincoln National Corporation (LNC)
FMC Corporation (FMC)
National Instruments Corp (NATI)
Newell Brands Inc. (NWL)
JM Smucker Company (SJM)
Darden Restaurants Inc. (DRI)
Adobe Inc. (ADBE)
Polaris, Inc. (PII)
Compass Minerals International (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)

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COMPLETED ANALYSIS ITEM(S) FOR PORTFOLIO COMPANIES

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)
Parsons Corp. (PSN) – convertible
Zillow Group, Inc. (Z)
VICI Properties (VICI)
MasTec, Inc. (MTZ)
Blackstone Mortgage Trust (BXMT)
convertibles
Teck Resources Limited Class B (TECK)
Quanta Services, Inc. (PWR)

Martin Marietta Materials, Inc. (MLM)
BioMarin Pharmaceutical (BMRN) –
convert.
KKR Real Estate Finance Trust Inc.
(KREF)
Devon Energy Corporation (DVN)
Camden Property Trust (CPT)
Aflac Incorporated (AFL)
Aptiv PLC (APTIV) – convertible
Life Storage (LSI)
Prologis, Inc. (PLD)
Tractor Supply Co. (TSCO)
Newmont Corp. (NEM)
Dollar General (DG)
Tyler Technologies (TYL)
Prospect Capital (PSEC)
Algonquin Power and Utilities (AQN)
Bentley Systems (BSY)
Jazz Pharmaceuticals (JAZZ)

Energy Transfer, LP (ET)
Blackstone, Inc. (BX)
Spotify Technology (SPOT)
MetLife, Inc. (MET)
Expedia Group, Inc (EXPE)
Tesla, Inc. (TSLA)
NRG Energy, Inc. (NRG)
MPLX LP (MPLX)
Merck & Co., Inc. (MRK)
Halozyme Therapeutics, Inc. (HALO)
NXP Semiconductors NV (NXPI)
First Solar, Inc (FSLR)
NICE Ltd. Sponsored ADR (NICE)
Microchip Technology Incorporated
(MCHP)
Enphase Energy, Inc. (ENPH)
Starwood Property Trust, Inc. (STWD)
Uber Technologies, Inc. (UBER)

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INVESTMENTS

The securities identified and described do not represent all of the securities purchased, sold, or recommended by advisory clients, and it should not be assumed that investments in the securities were or will be profitable.

www.laffertengler.com

Discipline is key to sustainable long-term total returns:

- **At Laffer Tengler Investments we use two, time-tested 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 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).

(Continued)

- 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)

(Continued)

Chart Source: FactSet

THE LAFFER TENGLER INVESTMENTS DISCIPLINE

- **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 has the potential to generate 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.

Chart Source: FactSet

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