2018 Headlines

***Headlines for the Week of 23 Dec—29 Dec 2018***

***East/Southeast Asia  
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**Hack gives Li'l Kim information on nearly 1,000 defectors in South Korea.** When dealing with a mentally unstable, mercurial dictator who happens to be the leader of a socialist state, there really is only one strategic plan: containment and constant pressure at all levels. There can never be a lasting deal with a madman. We don't doubt that, for a brief tract of time, Kim Jong-un liked Donald Trump, and was willing to make a deal with the West, but that time is over. He will need to feign overtures to end the economic containment of his country, but he will never give up his war-fighting capabilities or end his electronic warfare against the civilized world. With respect to the latter, the South Korean Unification Ministry announced that a malware hack has allowed the release of the names, birth dates, and addresses of 997 North Koreans who had previously defected to the South. The Ministry, whose raison d'être is to support a "one Korea" solution, apologized for the lapse and has notified the defectors. That should comfort them (considering the fact that Kim's half-brother was killed in Kuala Lumpur). *Investors need to understand this point: there will be times at which it appears all is relatively calm on the Korean peninsula, but that is a mirage. South Korea has a vibrant economy which happens to be the 11th largest in the world, but North Korean spies permeate the fabric of society in the South. The theft of intellectual property by the North on the South rivals only the IP theft of American technology by the Chinese. Fortunately (or unfortunately for the poor souls who live in the North), Li'l Kim doesn't have the economic infrastructure to do much with that technology—except undermine the South Korean economy as much as possible.****Media & Entertainment  
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**Fortnite parent pocketed $3 billion in 2018.** It isn't a publicly-traded company (yet), but if it were, Epic Games would have a value of $15 billion or so. That is due, in great measure, to its *Fortnite* release, which happens to be the world's most popular video game. Despite being "free" to players, once sucked into the game the 125 million or so gamers it currently boasts can buy digital items for their characters, such as outfits and dance moves. But how much can these nickel and dime purchases really yield for the company? According to insider reports, Epic grossed a $3 billion profit in 2018. Not revenues; gross *profit*. Epic, which Chinese conglomerate Tencent Holdings purchased a 48% stake in six years ago, just made another big move: it launched the Epic Game Store. Online gaming is now a $100 billion industry, and there are no signs of player fatigue—at least for the industry overall. Individual games, of course, can lose a fickle audience overnight. *Looking for a way to ride the latest video game wave? The top publicly-traded companies in the space are Activision Blizzard (ATVI), Take-Two Interactive (TTWO), and Electronic Arts (EA). The latter happens to be on sale: its stock is down roughly 50% from July highs.   ​****South Asia  
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**Foxconn's India plans are another warning shot to China.** The seductive concept of an emerging market with 1.4 billion potential new customers lured American companies to China. Now, more and more of these companies are realizing that conducting business in a communist country is fraught with dangers and pitfalls. While the government will never admit it, that country's written plan ("*Made in China 2025*") for world economic domination is now backfiring, as it provided a rallying cry to its biggest trading partners in the West. With the advent of the trade skirmishes, companies began scrambling to look for alternative locations to manufacture products without raising their labor costs greatly. The latest move comes from Taiwanese electronics parts-maker Foxconn, which just announced plans to begin producing high-end Apple (AAPL) iPhone parts in India. Foxconn is an enormous company. As the world's leading contract electronics manufacturer, the company employs nearly one *million* workers and generates an annual revenue of $160 billion (with lofty increases every year). India is a democratic republic, with no plans to take over the world (economically or otherwise), and with an equally-impressive 1.3 billion citizens. Expect more companies to follow Foxconn into this much "safer" manufacturing environment. *Whether or not a trade deal gets done, China has a lot of trouble on its horizon. When investing in emerging markets in 2019, be sure and check the fund's exposure to China—you may be shocked at just how heavily the fund manager has overweighted the Chinese position.*​  
  
***Happiness Index  
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**Christmas shopping rose a healthy 5.1%, but another metric is even more impressive.** $850 billion. That is the amount Americans spent during the 2018 holiday shopping season. That figure represents a 5.1% increase over last year—and the strongest number in six years, according to Mastercard SpendingPulse. But there is an even more impressive number in the report: online sales rose nearly 20% from last year. This means that retailers who have embraced this new online reality should continue to excel, while those who have put forth a halfhearted effort into building their online presence will continue to struggle. Besides the obvious winners such as Amazon (AMZN), who had done the best with this strategic shift? Walmart (WMT) and Target (TGT) have both put a massive effort into their respective online shopping experience. The worst? Sears (SHLD), Kmart (SHLD), and Marshalls (TJX).  *With the beaten-down market, there are a lot of great opportunities in retail, but beware of the shops who have not "figured it out" yet; the future of the retailing experience, that is. We expect big winners to include: Amazon, Walmart, Target, Best Buy (BBY), and Macy's (M)—though that last example could end up going either way. Of course, all of that online ordering requires a shipper to deliver it to your door. Here, we like FedEx (FDX), hands down. It happens to be on sale right now as well!*​

***Headlines for the Week of 16 Dec—22 Dec 2018***

***Market Pulse  
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**A week to forget.** So much for the Santa Claus Rally. Actually, the phenomenon typically happens in the last week of December, but that would be some heavy lifting to ask of just 3.5 trading days before the new year. Instead of the rally, we just got the worst week for the markets since the 2008 financial crisis, with US equities losing $2 trillion of value. December, typically one of the stronger months of the year, is heading for its worst showing since 1931. After the Santa Claus Rally comes the January Effect, which occurs as investors pick up stocks which they might have sold in December for tax-loss harvesting, and as big organizations rebalance their portfolios. The good news continues to be a relatively strong US economy, with no sign of recession on the horizon for 2019. This "feels" more like the October/November timeframe of 1987 (yes, I was invested, and yes, I had a *Business Week* subscription, which came to my USAF base). In October of 1987, the S&P 500 was down something like 23%, and the slide continued into November (down another 9% or so). Time will tell. In the meantime, we continue to make sure our asset allocation looks good, and check that our stops are on the appropriate positions.  *The median investment house forecast for 2019 (as of the start of this past week) is 3,200 on the S&P 500 by year's-end. That would represent a 33% gain between now and then. The last thing investors felt like doing by the end of November, 1987 was having money in the market. Look at the percentage increase between November, 1987 and June, 1988.****Multiline Retail  
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**Trade Action: This major multiline retailer is simply too undervalued to pass up.** Members can see the purchase we just added to the ***Intrepid Trading Platform*** by signing in.  [*Trading Desk*](https://www.pennwealthreport.com/trading-desk.html)*.****Global Strategy: E/SE Asia  
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**In long overdue move, the US just ratcheted up the fight on Chinese-sponsored economic espionage.** One of the (few) bright spots we have anticipated for the markets in the coming year revolves around a US/China trade deal getting done. They will never admit it, but China desperately needs a deal, as their economy is suffering greatly. At first glance, Thursday's actions by the FBI seemed to throw a wrench into the works. The agency brought forth criminal charges against two Chinese citizens for their role in a state-sponsored espionage campaign against US government agencies and American companies. The two were part of a group labeled APT10 by US intelligence officials, with the acronym standing for "advanced persistent threats." This has been an ongoing effort to steal sensitive and highly technical data from such industries as aerospace, banking and finance, healthcare, automotive, and mining. Most importantly, these charges came after a coordinated effort between the US, Canada, Japan, and the UK. While there is an Interpol issue out for the arrest of these two individuals, there is virtually no chance they will travel outside of the safety of China and risk arrest. It should be noted that the Chinese have audaciously stepped up their intellectual property theft efforts since they signed a pact with then-President Obama back in 2015 promising to end such behavior. One thing is certain, no matter what deal they sign to ease their economic pain, they will cheat (on any deal) to the greatest possible degree. *Some deal will probably be hammered out, and most or all of the tariffs will be lifted, but it won't take long for China to get caught hacking, once again, into US systems. The best bet, besides the legal efforts, will be for the US to continue development of its* [*quantum computing program*](https://www.pennwealthreport.com/information-technology.html)*. Potential winners in this new "arms" race will be IBM, Google, Microsoft, and Intel.****Monetary Policy  
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**Powell's second mistake at the FOMC news conference.** In addition to the harshly-negative reaction the markets had to Powell's "more hikes to come" comments following the ninth rate hike in three years, there was something else he alluded to that angered and spooked investors. Of the Fed's four major tools for shaping monetary policy, two are at the forefront right now: moving the federal funds rate (which it did on Wednesday), and controlling the size of its balance sheet through open market operations. As if the specter of two more rate hikes in 2019 wasn't bad enough, Powell made it clear that the systematic unwinding of the $4 trillion balance sheet (already reduced from $4.5 trillion) would continue like clockwork. The Fed is currently allowing roughly $50 billion per month to run off the balance sheet by letting government debt instruments simply mature, and not issuing new debt to replace it. On its face, that sounds like good fiscal policy, as it reduces the overall level of government debt. But investors see a lot of troubling factors on the horizon, and they expected Powell to tip his hat to this and hint that the unwinding, or quantitative tightening (QT, as opposed to QE) might be put on pause or, at least, slowed. They were sadly disappointed.  *Forget what Powell says, signs that the Fed "gets it" will come in the form a reduced runoff of the balance sheet. I use the Federal Reserve Board website to look at the data. I have placed a link to this site at the top of the Monetary Policy page at PennEconomics. Take a look!****Pharmaceuticals  
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**Pfizer and Glaxo to create world's largest seller of over-the-counter drugs.** Earlier this year, we discussed soon-to-be-former CEO Ian Read's plan to split Pfizer (PFE $33-**$42**-$46) into three distinct parts—one being the Consumer Healthcare Unit which makes and markets over-the-counter medications. Ever since that idea was hatched, Pfizer has had something else in mind: selling that unit altogether to focus on the more lucrative prescription drug market. British drugmaker GlaxoSmithKline plc (GSK $35-**$37**-$42) relies on its OTC business for about 25% of revenues (versus 7% at Pfizer), but Read came to them with an offer they couldn't refuse—merging both companies' respective units into one, creating the largest non-prescription drug seller in the world. Product lines would include familiar names like: Advil, Tums, Centrum, Chapstick, Sensodyne, Boost, and Abreva. The new company will, more than likely, be listed on the London Stock Exchange, with GSK owning roughly two-thirds of the entity and Pfizer owning the other one-third. *We have competing thoughts on this deal. Pfizer, which is currently in the Penn Global Leaders Club, will lose a consistent money-maker to focus on its riskier (by nature) prescription drug business. The same goes for Glaxo. We will further outline the positives and negatives of the move in the next issue of The Penn Wealth Report.****Monetary Policy  
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**Another rate hike: fed funds rate now at 2.5%, long-run funds rate lowered to 2.8%.** It was one of the most heated periods of debate leading up to any FOMC meeting in recent memory. And the camps were about evenly split between "the Fed must raise rates," and "the Fed will lose credibility if it raises rates again." Going into the 1pm CST decision, the Dow was up nearly 300 points; within seconds after the announcement, it was flat. What bothered the markets so much wasn't the highly-anticipated ninth rate hike since October of 2015, it was the fact that the language wasn't quite dovish enough. If Fed Chair Powell hadn't said that more rate hikes will probably be needed in 2019, markets probably would have maintained their gains on the day. Instead, he hinted at two more hikes in 2019, and potentially even one for 2020. The "long-run funds rate," which had been at 3%, was lowered to 2.8%. That would indicate one to two more hikes next year—not what investors wanted to hear.  *Despite the loss of most of the day's gains after the Fed announcement, markets can digest this one (mainly because stocks have been so deflated this quarter already). However, if the Fed obstinately raises rates in 2019, expect an immediate tantrum in the markets. One more X-factor to be concerned with next year.****Corporate Governance  
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**If economic conditions are deteriorating, why did American companies just buy back $1.1 trillion worth of their own stock?** The latest was aerospace giant Boeing (BA $293-**$327**-$394), whose board of directors just approved a whopping $20 billion share buyback and a hefty hike in the dividend. The CFO cited strong aircraft demand for the actions. Before that it was Johnson & Johnson (JNJ $119-**$130**-$149), which announced a $5 billion buyback after shares got pounded on new (unsubstantiated) claims of asbestos in the company's talc. All told, it has been a record year for buybacks at American firms. To date in 2018, over $1 trillion has been committed, and over $800 billion already spent. There is one universal theme to these massive buybacks: the respective CFOs of the companies see their shares as being grossly undervalued. And who would be in a better position to gauge a company's health than their CFO? The global economy is indeed probably slowing a bit, but that doesn't warrant the big selloff we have seen this quarter.  *Forget what CEOs and CFOs say in quarterly conference calls for the consumption of the analysts and investors; instead, watch what they actually do for clues on how a stock might perform going forward. Buybacks are one of the metrics we use to gauge a company's probable stock performance, at least in the short run.****E-Commerce  
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**Blue Apron just became a penny stock.** When I was a relative "kid" in the 1980s, I had a subscription to a weekly newspaper called *The Penny Stock News*. It listed all of the publicly-traded stocks with share prices below $10. One issue I recall highlighted a company called The Puerto Rican Cement Company, which had just risen some 5,000% in price, moving from something like a dime up to five bucks or so per share. Home meal kit provider Blue Apron (APRN $1-**$1**-$5) should be so lucky (to be trading at $5). They would, however, now qualify to be an entry in *The Penny Stock News*, as their share price fell to $0.87 on Tuesday. It was a slow-moving train wreck from the start. With so much competition, what were the owners thinking? They could have stayed private and eked out a nice living for themselves, outside of the spotlight of the investing public. There was just too much competition in the space, with no real unique value proposition (UVP) for any one of these companies. We said back in September of 2017 that the company's only hope was to find a deep-pocketed buyer, such as Walmart (WMT) or another grocery chain. Well, Walmart has started their own meal kit business, Albertson's has purchased  Blue Apron competitor Plated, and Kroger (KR) acquired Home Chef, so it is not looking good for the new penny stock.  *It's easy for founders to be blinded by the perceived value of a company they started, but there is no excuse for investors not to consider a company's unique value (or selling) proposition. If the products or services can't justifiably stand out from the competition in any meaningful way, what would be the catalyst for purchasing shares? A question that investors who got in on the IPO of Blue Apron are probably asking themselves right now.****Energy Commodities  
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**Oil breaks into the $40s, hitting new 2018 low.** Oversupply and concerns about a global economic slowdown helped drive down crude oil futures down to their lowest level since August of 2017, falling 25% in the last three months alone. That's great news for drivers, not so much for US drillers. However, oil would have to drop to the mid-$40s range for most drillers in this country to see their profits evaporate. It was just a few weeks ago that the OPEC/Russian alliance agreed to cut production by 1.2 million barrels per day (BPD), but considering the fact that the US is now producing a record 12 million BPD, and that Russia will probably cheat (low oil is killing their economy), downward pressure remains intact.  Additionally, Mexico's President "Amlo," who took office on 01 Dec, announced plans to raise that country's oil and gas output by 50% within the next six years. US light crude closed Tuesday's session at $45.91 per barrel.  *Despite the oversupply and global growth concerns, the mid-$40s is, we believe, the bottom channel for US light crude. For action we took in this area, members can visit the Trading Desk.****Media & Entertainment  
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**Disney hits $7 billion in global box office ticket sales for the second time in the industry's history.** There have been only two times in which a movie studio has broken through the $7 billion mark in annual global ticket sales, and the same company is responsible for both. Walt Disney (DIS $98-**$113**-$120) just surpassed that mark with a strong box office showing by "*Ralph Breaks the Internet*," the animated sequel to their 2012 hit "*Wreck-It Ralph*." Disney is nearing its old Hollywood record of $7.6 billion in ticket sales which it racked up in 2016, but can it surpass that figure? Considering the fact that "*Mary Poppins Returns*" will hit theaters on the 19th of December, it is almost a given. What were the top two Disney blockbusters thus far in 2018? Marvel's "*Avengers: Infinity War*" and Marvel's "*Black Panther*" topped the global and domestic box offices, respectively. It appears the $4.24 billion Disney payed for Marvel back in 2009 was a pretty smart deal. Disney is one of the 40 holdings in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html).  *Although Disney is now in the new Communications Services sector (moving over from Consumer Discretionary in September), it is certainly still a "discretionary goods" company—meaning nobody really needs Disney's products to survive. While companies which sell discretionary goods and services are typically the first to get hit as an economy slows down on its way to a cyclical recession, Disney is moving forward at a fast clip with its strategic plan to create an annuitized stream of income through its planned subscription services. This should help the company weather any downturns quite nicely.  With its 13 PE ratio and 40 Relative Strength Index rating, we still consider the company undervalued.*

***Headlines for the Week of 02 Dec—08 Dec 2018***

***Market Pulse  
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**Investors got it dead wrong on Friday: a trade deal gets done and the markets rally.** Certainly, the rise of electronic trading and "quant" funds had a lot to do with the recent selloff—when certain benchmarks hit a certain point computer programs initiate a sell. But the fundamental reason for the wild swings in this week's trading revolved around the arrest of the Huawei executive in Canada and the presumption that this quashes a trade deal between the US and China. Investors got it dead wrong: a trade deal happens and the markets surge. There will be a lot of disconcerting issues in 2019, to be sure; the trade deal with China, however, will come off the table as an issue relatively early. Many major US firms believe this as well, as evidenced by the massive stock buyback programs currently underway. Facebook's (FB $127-**$139**-$219) board of directors, for example, just raised that company's stock buyback plan by a whopping $9 billion. *Again, there will be lot of issues to be concerned with in 2019, but major trade issues will be resolved relatively soon. Additionally, the other major disruptive issue for the markets, interest rate hikes, will cease to be a drag on the markets as the Fed continues to water down its hawkish tone. Look for a December hike and two more in 2019—very manageable for the economy in general and the housing market specifically.****Beverages & Tobacco Products  
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**Altria is making the moves needed to survive in an anti-cigarette world.** Yes, there are still plenty of smokers around the world. In fact, over 50% of Chinese men continue to smoke cigarettes (only 2.4% of Chinese women smoke) despite the health risks. Nonetheless, tobacco giant Altria (MO $53-**$56**-$74) sees the writing on the wall: increased government regulation and a continual stream of public opinion hit jobs done on the 2,000-year-old product will continue to erode sales. Despite owning the Marlboro brand, which holds a 40% market share globally, the $105 billion company has decided it is time to expand their horizons, making two recent moves which make a lot of sense. Last month is was reported that Altria will buy up to a 40% stake in e-cigarette company Juul Labs, by far the fastest growing e-cig on the market. Juul, in fact, now has roughly a 75% market share among all vaping devices, and the company produces some 20 million device pods per month. The second, and most recent move by Altria has enormous growth potential. While cigarettes (even vaping devices) are being demonized, the growth trajectory of cannabis sales around the world is sky high. To that end, big MO just took a $1.8 billion stake in Canadian marijuana grower Cronos (CRON $3-**$13**-$15). To put that investment in perspective, at the beginning of November Cronos had a market cap of $1.2 billion. The investment gives Altria 45% ownership of the firm along with warrants which could increase that stake to 55%. *Read what we think of Altria's plans, and whether or not it is a good investment right now, in the next issue of The Penn Wealth Report.*  
  
***Internet Retail  
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**Amazon Go: cashierless store coming to an airport near you.** You may recall us discussing Amazon Go earlier in the year—Amazon’s (AMZN $1,151-**$1,699**-$2,051) cashierless store experience in which you walk in, pick up what you want, and simply walk out. It seems as though the $831 billion retailer has found the perfect venue for launching these futuristic stores: your local airport. Reuters has reported of several meeting requests between Amazon executives and officials at a number of large US airports to discuss the idea. The locations seem ideal: hundreds of millions of time-constrained passengers fly in and out of major US airports each year. The ability to scan a smartphone at a turnstile entrance, pick up what you want, and then simply walk out and head to your gate would be wildly popular. Additionally, the relatively higher-level of security in non-gate areas of airports should help dissuade theft while Amazon continues to test and perfect the technology behind the concept. *Read more about Amazon's strategic plans in the next issue of The Penn Wealth Report.*  
  
***Global Strategy: Trade  
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**Arrest of senior Huawei executive sends chills through markets as trade deal seen in jeopardy.** Huawei (pron. "WAH weigh") Technologies is the pride and joy of China and a symbol of the country's burgeoning tech sector. The company is the world's leading supplier of network gear, and the second largest smartphone maker. It is also one of the world's chief perpetrators of intellectual property theft—with the government's tacit approval. Under that backdrop, let's consider what happened last Saturday. Unbeknownst to investors and perhaps even the respective presidents of the US and China, as trade relations were thawing over a dinner in Argentina, Huawei's CFO—and the daughter of the company's founder—was being arrested in Vancouver on charges of sanctions violations with Iran.  Meng Wanzhou now faces possible extradition to the US on the charges. The Dow dropped nearly 800 points on news of the arrest before a massive rebound. Some believe Tuesday's big selloff was the result of insider information of the arrest. *It seems almost unfathomable that neither of the two world leaders knew of the arrest before the Saturday dinner. This leads us to believe there is more to the story than is being reported, or is known. The Eurasia Group, a political risk consulting firm, believes this may well derail trade talks. We don't buy it. We look for some "unexpected" news to unfold in the coming days on the arrest.****Energy Commodities  
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**Another crack in the bloc: Qatar to leave OPEC.** In the big scheme of things, Qatar is somewhat of a blip on the radar screen within OPEC. In fact, you have to go through ten countries—from a production standpoint—until you get to the peninsular Arab nation. That being said, the country's decision to leave OPEC after 57 years (it joined the year after the organization was founded) is another sign of trouble for the once-dominant oil producing cabal. Why is Qatar leaving? In the first place, it has had a long-running spat with Saudi Arabia, OPEC's titular head, with the Saudis accusing Qatar of being a state sponsor of terrorism. Secondly, the country wants to curry favor with the US, and sees this as a way to stick it to Saudi Arabia and cozy up to the US at the same time. Qatar has some leverage: the country's breakeven point on oil—the point in the fulcrum at which it can still maintain a balanced budget—is $47 per barrel versus $88 for Saudi Arabia. Additionally, the tiny country is the world's largest exporter of liquified natural gas (LNG), so its reliance on oil is not as high. *The move by Qatar, from the US standpoint, is a good one. Not only does it hurt OPEC, it keeps the US/Qatar alliance strong, and weakens the ties between Iran and Qatar. This move should help to keep oil prices near the lower band of their recent channel.****Capital Markets  
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**Penn member Blackstone made a brilliant deal with Crocs investment.** We talk a lot about corporate management—how a great CEO can allow a company to excel while a lousy CEO can drown a previously-strong company. In the asset management arena, few do it better than Stephen Schwarzman, the longtime CEO of Blackstone Group, LP (BX $30-**$35**-$41). A case in point is the company's $200 million investment four years ago in a struggling footwear company called Crocs (CROX). Back in early 2014, the maker of those ubiquitous, multi-colored rubber shoes needed some cash. Blackstone stepped in, making a $200 million investment in exchange for a 13% stake in the company, two board seats, and preferred stock which could be converted to common after three years at a price of $14.50/share. At the time, CROX was selling at $13 per share. Now, with Crocs selling at $29 per share, the company will buy back about half of those preferreds from Blackstone for $183.7 million—nearly equal to the asset manager's entire investment. Crocs CEO Andrew Rees praised the work of the Blackstone-positioned board members, saying that their strategic guidance had helped put them in the financial position to execute the buyback. *Private equity deals take place every day, typically outside of the purview of the common investor. Owning shares of a company like Blackstone can give investors of every size a chance to see the inner-workings (or at least as much is required by the SEC) of a private equity firm. We own Blackstone Group in the Penn Strategic Income Portfolio. The company, by the way, has a 7% dividend yield.****Global Strategy: Europe  
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**The powder keg issue of the Yellow Vest protests in France: gas tax hikes.** Clashes between police and the so-called Yellow Vest protesters in France turned violent over the weekend, with little sign that either side is willing to back down. While the bigger issue is one of government overreach versus individual freedoms, this most recent movement stems from one specific action: the Macron government's decision to raise gas taxes (by the equivalent of about $0.30 per gallon) as part of a wider environmental push to reduce the use of fossil fuels. Average, ordinary French citizens see this carbon tax as a sign of just how out of touch the elitists in government really are, and they see Macron as one of the elites. It is a classic battle between the masses in flyover country, and the ruling class. And it is not limited to France—spillover protests are taking place in Belgium and other nations in Europe. Odds are great that the carbon tax will remain in place, further reducing Macron's already anemic approval numbers. *As a small segment of the protesters deface and otherwise harm monuments and other symbols of national pride, public opinion will turn slightly against them—which the French press will happily help to foment. However, the simmering will continue. If the unemployment rate remains stubbornly high—it has been sitting near 9.5%—strikes and general protests will continue, and French/European GDP will continue to be flat. Another reason we are underweighting developed Europe in our international mix.*​

***Headlines for the Week of 25 Nov—01 Dec 2018***

***Hotels, Resorts, and Cruise Lines  
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**Another reason to dislike Marriott: up to 500M guests got their personal data hacked.** Ever since the Blackstone Group (BX) took Hilton (HLT) public back in 2013, it has been our go-to hotel investment. Not only do we like the chain, we despise their biggest publicly-traded nemesis, Marriott (MAR $107-**$115**-$149). You may recall that we raked the company over the coals back in March due to their disgraceful [treatment of employee Roy Jones](https://www.penneconomics.com/hotels-resorts--cruise-lines.html); now, we have another reason to stay away from the company as an investment. Marriott reported that up to 500 ***million*** guests over the past four years had their personal data compromised. Data included passport numbers, home address and phone numbers, and payment card information. The breach stems from a hack at Starwood Hotels, which Marriott bought in 2016, and apparently began a full four years ago—which doesn't say much for the company's cybersecurity program. With 500 million potential victims, this is now the second-largest hack in history (behind Yahoo's damaging data breach). *We see the global economy slowing down as we move into 2019, and don't expect much growth from this industry in the near future. That being said, Hilton and Royal Caribbean (RCL) are our two top picks in the industry.****Commercial Banks  
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**More evidence that the German economy is floundering? Look no further than their prized bank.** Back in January, we wrote a brief article on the $1.8 billion charge that Germany's leading private bank, Deutsche Bank (DB $9-**$10**-$20), would be taking thanks to tax reform in the US. At the time, DB was selling for $20 per share and had a market cap of $40 billion—down from its $60 billion market cap back in 2011. Apparently, a few "enterprising" bank officers tried to claw back some of those losses by helping some shady customers set up off-shore bank accounts to launder money. On Thursday morning, nearly 200 German police officers, prosecutors, and tax inspectors raided Deutsche Bank's offices in Frankfurt and other locations searching for evidence. Over 900 bank clients may have accounts at the DB subsidiary in the Virgin Islands at the center of the investigation. Shares of DB were trading down just over 3% on news of the raids. *Is DB a bargain at $9.50 per share? We don't believe so. The bank had aspirations of competing against their American counterparts for big institutional deals, but this dark cloud hanging over the institution has repelled potential clients. Furthermore, the European Central Bank is not taking the proactive steps necessary (unlike the US Fed) to create a positive environment for the big European banks. Stick to North American financial institutions for now, i.e. US and Canadian commercial banks.****Market Pulse  
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**Fed Chairman pushes Dow up over 600 points with dovish speech.** It didn't take much, just one little nuanced line that "we are nearing neutral" with respect to interest rates. But that line, delivered to the Economic Club of New York by Fed Chair Jay Powell, was enough to push the Dow higher by 618 points, the S&P 500 by 62 points, and the NASDAQ by a whopping 209 points by Wednesday's close. It really was a refreshing speech by Powell, who has been especially hawkish in his views on rate hikes. Just this past summer he insinuated that we are "well below normal" with respect to rates. So, what does this mean for a December hike? Probably nothing—it is all but baked in. But it does mean that the Fed will probably limit 2019 to a few hikes and be done. *We believe that this is a goldilocks scenario (overused term, we know) for rates. They will get high enough for clients to grab some decent yielding bonds, but remain low enough that the housing market won't get crushed. This actually makes us a bit more sanguine and upbeat about 2019.****Specialty Retailer  
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**In the midst of a bull session, Chico's has its worst day ever.** Specialty women's retailer Chico's Fashion (CHS $4-**$5**-$11) closed the trading day on Tuesday at $7.32 per share. By the time the market opened on Wednesday, CHS had fallen to $5.01/share and one-third of its market cap was gone. (This is a great lesson for anyone using stop-losses, by the way.) What caused the massive drop? An earnings report that didn't live up to expectations and a downgrade of the company's full-year outlook. Third-quarter revenues fell 6% YOY, from $532M in Q3 of 2017 to $500M this past quarter. Earnings were equally as disappointing, falling from $0.13 per share to $0.05 per share, a 62% drop. *Our take? Don't get sucked in by the 7 PE ratio or the 7% dividend yield. We don't see what could possibly turn this tiny ($665M) boat around, especially in the shark-infested waters of the retail world.****Housing  
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**Don't fear all of the negative headlines about homebuilders, buyers will adapt to higher mortgage rates.** For virtually all of 2018, the overwhelming majority of housing headlines have been somewhere between blah and dire. We recently reported, in fact, that our benchmark homebuilder ETF, the iShares US Home Construction fund (ITB), is now down 29% YTD. Today's news was more of the same: new single-family home sales fell 8.9% in October, and 12% from the same period a year ago. The regular tick-up in the median new home price actually ticked down for the month, falling 3.1% to $309,700. One last data point: the average 30-year mortgage rate has risen from 3.95% at the start of January to 4.81% right now. We believe this backdrop is too gloomy, however, and we don't buy the hype that a huge housing correction is coming. We will see, more than likely, three to four more rate hikes before we plateau. Four more hikes would probably cap the 30-year average mortgage rate at somewhere around 6%—a "reasonable" level. Certainly not high enough for another mass migration to rental units like we saw following the 2008-2009 housing crisis. *While we don't currently own any homebuilders in any of the Penn portfolios, valuations are making several of them mighty tempting. Lennar (LEN), Pulte (PHM), and D.R. Horton (DHI), for example, all have PE ratios in the high single digits—about half of where they were sitting at the start of the year. The Index ETF, symbol ITB, has fallen from $45 at the start of the year to a current price of $31.26.****E-Commerce  
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**When you think online advertising, two names come to mind; but the new #3 may surprise you.** Alphabet's (GOOGL $984-**$1,049**-$1,291) chief subsidiary, Google, is obviously the undisputed leader in online advertising. In fact, one out of every three dollars spent around the globe on digital advertising goes into the pockets of Google. Put another way, about 95% of Alphabet's $130 billion in revenues TTM was generated from ad dollars. In second place would be Facebook (FB), with virtually all of its $52 billion in TTM revenue coming from online ads. So, who is in third place? Twitter (TWTR) was our immediate guess. Alas, that was incorrect. Online retailer Amazon (AMZN), of all companies, just took the bronze medal for online ad revenue, surpassing Verizon (VZ) and Microsoft (MSFT). Granted, the company's $4.6 billion ad take is peanuts when compared to the first- and second-place players, but their dominant e-commerce business makes perfect sense for companies looking to highlight their products and services. Expect the company to rapidly increase its ad market share over the coming years. *How far we have come from the Mad Men age of the 1960s. While traditional ad agencies still exist (WPP is the largest, at $16 billion), over half of all money spent on ads now go into the online venue. The importance of this when evaluating Alphabet, Facebook, and Amazon as investments should not be underestimated. As for Twitter, the company is at risk of losing the advertisers it already has unless it dramatically changes its strategy.****Tech Hardware, Storage, & Peripherals  
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***Who* just caught up to Apple in size?** When Apple (AAPL $150-**$173**-$233) became the first trillion-dollar company in history, it had a couple of tech giants in its rear view mirror; namely, Alphabet (GOOGL) and Amazon (AMZN). What few would have predicted is yet another company, stodgy old Microsoft (MSFT), being the one to catch the Cupertino-based iPhone maker. But that's just what happened: both Microsoft and Apple now have a market cap of $821 billion. Of course, Apple did the heavy lifting, falling nearly 25% within the past two months. *We believe both companies are excellent buys at their respective share prices. And both continue to develop world-class services businesses which assure a steady stream of monthly income from users. We pay both each month, and it would be difficult to turn off either stream. In other words, they have created a "sticky" customer base.****Alternatives: Commodities  
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**Goldman is predicting commodities will launch in 2019.** Goldman Sachs doesn't exactly have a perfect record with respect to its past commodities predictions, but we do find this one interesting. The $72 billion financial services firm said the upcoming G-20 meeting in Argentina could be the catalyst needed for the beginning of a big uptick—perhaps 17% over the coming months—in commodities overall. Specifically, analysts at the firm claim the markets have not baked any potential thawing of US-China relations into the equation; an event which would certainly help commodity prices. Which commodities will rise the most if Goldman is right? The firm cites soybean as a specific beneficiary of improved relations between the world's two largest economies, as the US exports such a large amount of the product to China. They see oil, which has fallen on worries about trade and a global slowdown, also rising over the coming months. Finally, Goldman predicts that a global economic slowdown would help gold prices—which have fallen nearly double-digits YTD—in 2019.  *Our go-to commodities basket is DBC ($15-****$15****-$19), the Invesco DB Commodity Tracking ETF. The fund, which was up nearly 12% at the beginning of October, is now down 7.22% YTD.*  
  
***Fixed Income Desk***  
  
**Treasuries turn lower on slump in homebuilder confidence levels.**First it was concern over rates going too high too quickly on the back of consistent Fed hikes. Now, thanks to the downturn in homebuilder sentiment, we are seeing real yields actually drift lower. The benchmark 10-year Treasury, for example, topped out at a 3.263% yield in the first week of October, but now carries just a 3.069% rate. The 2-year T note isn't far behind, at 2.796%. In other words, why would investors take on the added duration of the 10-year for such a small comparative advantage over the 2-year? Rate "normalization" suddenly looks a lot lower than it did when the Fed began raising its FFR precisely three years ago. As for homebuilder confidence, the NAHB's confidence index fell by 8 points in November, to a level of 60 (any level above 50 is considered expansionary, while levels below 50 reflect a contraction). *One of our current fixed income picks is a 5.5-year JP Morgan step-up CD yielding between 3.1% at the start to 5.5% at the finish. The CD, cusip 48128FS29, has a survivor's option.*  
  
***Consumer Discretionary: Automotive  
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**General Motors to shutter five North American plants, slash salaried workforce.**   
*(****Update:*** *President Trump has threatened to cut off all subsidies for GM's growing electric car business due to the blue collar cuts.)*  
General Motors (GM $31-**$38**-$46) calls it "unallocating," but to the 6,000 factory workers who will lose their jobs, the word is "closing." The $54 billion US automaker announced that it will shutter five North American auto-producing plants—four in the US and one in Canada—by the end of 2019. The plan, which also calls for a 15% cut in the salaried workforce, is part of a global overhaul by the company to account for slowing auto sales, growing SUV and truck sales, and rapidly-increasing autonomous vehicle technology. While the restructuring will cost nearly $4 billion, GM says the moves will improve free cash flow by $6 billion before the end of 2020. Angry union workers at the Canadian plant noted that GM was not slashing any positions at its Mexican facilities. *General Motors spiked over 7% on news of the global restructuring, but then gave most of that back after backlash from the White House.*  
  
***Global Strategy: Russia  
​***  
**Ukraine set to declare martial law as tensions with Russia heat up.** Ukraine has been in an undeclared state of war with Russia ever since the 2014 Russian invasion of Crimea. As tense as the situation has been over the past four years, the heat just got turned up. Over the weekend, Russia opened fire on and subsequently detained three Ukrainian vessels—two armored artillery ships and one tugboat—as the small convoy passed through the Kerch Strait. Since the invasion, Russia has claimed the waters around the strait; a claim which Kiev (rightfully so) has never recognized. With the sailors in custody, Ukrainian President Petro Poroshenko—a US ally—has asked parliament to declare martial law in the country, giving the military extended power for at least sixty days. Odds are, Putin will bow to pressure and release the sailors soon, but the simmering pot between the Black Sea and the Sea of Azov is getting closer to the boiling point. *The VanEck Vectors Russia ETF (RSX $20.10) is off around 2% on the day and down 5.26% YTD.*

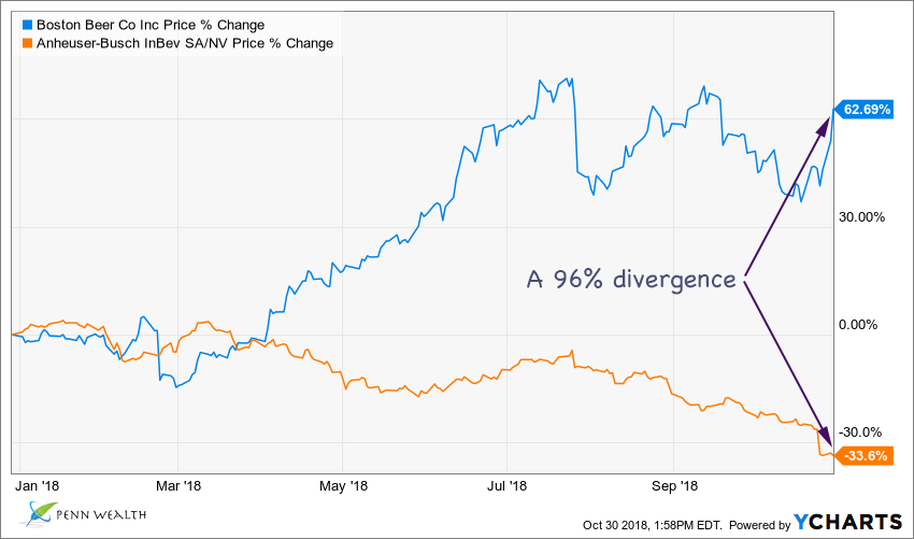
***Headlines for the Week of 04 Nov— 10 Nov 2018***

***The news you need, without the mainstream bias you don't...***

***Energy: Commodities  
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**Oil futures just broke into the $50s in longest daily losing streak since 1984.** Approximately one month ago, on the 3rd of October, crude was going for $76.24 per barrel, and consumers were paying out the nose at the pumps. Now, just four days after the much-hyped new Iranian sanctions went into full effect, oil broke into the $50s, closing Friday at $59.87 per barrel. Once again, the oil experts were wrong. And oil in the $50s is great: it provides some relief at the pump but still offers some nice profits to US drillers. Speaking of which, the US just hit another historic level of production: 11.6 million barrels per day. OPEC and their quasi-partner Russia are now threatening more cuts to increase the price of crude; let them, the American energy renaissance is alive and well (despite the Obama-appointed federal judge in Montana who just placed the Keystone Pipeline on hold once again).    
  
***Space Sciences & Travel  
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**SpaceX to build and fly a "mini-BFR" to launch atop Falcon 9 as soon as next year.** Anyone following the renaissance that is the American manned space program is probably familiar with SpaceX's planned BFR, or Big Falcon Rocket (although the F is often replaced with a more colorful term by the founder). This is the ship designed to take men and women to Mars and beyond. Actually, consider the BFR to be the equivalent of the Saturn V which launched Americans into orbit on their way to the moon. The BFS (Ship) would be the equivalent of the manned capsule which contained the lunar lander. Now, the company has created a stepping stone, a "mini-BFS," that it plans to build and subsequently test atop a Falcon 9 rocket as soon as June of 2019. Founder Elon Musk tweeted hints of the spaceship, saying it would be used to test the new technologies and recovery strategy of the system. SpaceX has now successfully launched [seventeen Falcon 9 missions](https://www.spacex.com/missions) thus far in 2018.   
  
***Health Care: Pharmaceuticals  
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**Eli Lilly's animal health spinoff, Elanco, reports solid first numbers.** Animals are now considered part of the family in millions of households across the country, so it makes perfect sense that health care issues would affect them as they do their human family members. In a burgeoning segment of the industry, companies are racing to research, produce, and sell therapies which will extend the length of and enhance the quality of life for our furry friends. That frenzy was a major catalyst for Eli Lilly's (LLY) decision to spin off its Elanco Animal Health (ELAN $30-**$34**-$38) unit as its own publicly-traded entity. That company, which is now $12 billion in size (LLY has a market cap of $114B), just released its first quarterly earnings report since its IPO, and the numbers looked strong—beating expectations on both revenues and gross income. Elanco, which had been part of the Eli Lilly family since 1954, also makes animal food products, vaccines, and antibiotics for the livestock industry.    
  
***Global Strategy: Middle East  
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**US sanctions against Iran are already hurting the radical regime.** For all the talk of a global backlash for pulling out of the horrendously-bad Iran nuclear deal, and the Iranian's comical "vow" to not be affected by US actions, new sanctions are already pounding the rogue regime. A full one-third of Iran's oil exports—one million barrels per day—have been halted. With an overwhelmingly oil-based economy, Iran may talk tough, but it is sweating. Foreign direct investment, the other source of life blood for the Iranian economy, has almost completely dried up (Russia is trying to help, but its investment capabilities amount to drops in the bucket). On Monday the 5th of November, full Iranian sanctions took effect, with the US carving out around eight temporary exemptions for countries which rely heavily on Iranian crude, giving them time to find replacements. In the meantime, oil prices have not gone up due to the sanctions, as many experts had predicted they would. In fact, crude prices fell a full 12% in the month of October alone. All of this spells bad news for a tyrannical regime already feeling the heat from its people.

***Headlines for the Week of 28 Oct — 03 Nov 2018***

***SAM rocks, BUD tumbles...***



***Consumer Staples: Beverages  
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**A US beer company spikes, while a foreign beer company plummets.** The chart is simply remarkable. American brewer Sam Adams (SAM, Boston Beer Co) is up 63% YTD, while Brazilian/Belgian brewer Anheuser-Busch (BUD) is down 34% YTD. Why? It couldn’t just be that Fenway Park has dumped BUD for SAM. Maybe it’s the fact that A-B saw a 10% drop in revenues this past quarter, while Boston Beer saw a 24% spike in sales. Speaking anecdotally, our consumption of SAM also spiked after BUD was forced into foreign hands by the bungling mismanagement (our opinion) of Buschies III and IV.   
  
***Global Strategy: Europe  
​***  
**Twilight (finally) descends on Merkel's political career.** Talk about someone overstaying their welcome. Angela Merkel has been chancellor of Germany for eighteen long years, and this past weekend's regional elections show just how weary German voters have become of her leadership style and policies. A few weeks ago, Merkel's alliance parties were hit in Bavaria with their worst election losses since 1950. This past weekend, regional elections moved to the wealthy state of Hesse—home to the German financial industry—and the outcome was similar. Merkel's ruling Christian Democratic Union (CDU) and alliance Social Democrats party (SPD) garnered less that 47% of the vote in aggregate. It was such a deep loss for Merkel that she abruptly announced she would step down as chairman of the party this December. While she also announced she would not seek a *fifth* term in 2021, her party may seek another option: removing her as chancellor before the next national election.

***Headlines for the Week of 21 Oct — 27 Oct 2018***

***The headlines you need, minus the mainstream slant...***

***Media & Entertainment  
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**Can an Apple TV subscription service really compete with Netflix? We are about to find out.** Yes, Apple (AAPL $150-**$223**-$233) has a piece of hardware called Apple TV. But don’t confuse that with the new Apple TV subscription service the company is getting ready to launch. Let there be no doubt: the incredible success that Netflix (NFLX) has had in finding people willing to shell out $10.99 per month (there are currently 120 million of us) is the catalyst for this move. But can Apple really deliver? We will find out beginning in early, 2019. That is when, according to tech site The Information, the company will have a high-profile launch of the service in over 100 countries. In the next issue of [The Penn Wealth Report](https://www.pennwealthreport.com/), we identify Apple's ace in the hole that will all but assure this program's success.   
  
***Aerospace & Defense  
​***  
**Boeing singlehandedly pushed the Dow from negative to positive in pre-market trading.** It is a great example of just how fickle the Dow can be. Futures were trading down around 100 points pre-open on Wednesday, and then the Boeing (BA $255-**$350**-394) earnings report hit the wires. The company beat on revenues ($25B, up from $24B), beat on earnings ($3.58/sh, up from $2.62/sh), and raised its full-year guidance on the back of strong commercial aircraft orders. And, just like that, futures went from down triple digits to up triple digits. (Boeing is a member of the 40-company [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html)). If earnings continue to roll in strong, investors should be willing to shake off fears over rates, slowing Chinese growth, and geopolitical issues. We continue to expect a strong Q4 when the dust settles.   
  
***Interactive Media & Services  
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**Is Facebook about to pick up a major cybersecurity firm?** The rumor mill is abuzz with stories of Facebook's (FB $149-**$155**-$219) interest in buying a major cybersecurity firm to take on the herculean task of strengthening its users' data security. With all of the company's recent problems and negative headlines, it is easy to forget that its market cap still hovers around half-a-*trillion* dollars. Only five publicly-traded entities in the world are larger than Facebook. So, which cybersecurity firm might they go after? Odds are good the target company is owned within both of our two favorite cyber ETFs, HACK (**$36.75**) and CIBR (**$25.60**). Within the field, we like Fortinet (FTNT), FireEye (FEYE), Palo Alto Networks (PANW), and Proofpoint (PFPT). Of those, FireEye would be the easiest pill for investors to swallow, as the company has a relatively small $3.5 billion market cap. For the record, we own CIBR as a satellite position in the [Penn Dynamic Growth Strategy](https://www.pennwealthreport.com/the-penn-portfolios.html), so we are prepared for one to have a nice pop.

***Headlines for the Week of 14 Oct — 20 Oct 2018***

***The headlines you need, without the mainstream slant...***

***Under the Radar  
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**Espy Manufacturing & Electronics Corp.** Espey (ESP $21-**$29**-$33), a $70 million micro-cap in the Electronic Components industry, does the grunt work for the US military. The company develops, designs, and produces specialized military and industrial electronics, transformers, shipboard systems, metal fabrication, testing equipment, and a host of other mission-critical items. With just 150 employees, the company had revenue of $32 million last year and generates positive net income yearly. Read more about this company in [The Penn Wealth Report](https://www.pennwealthreport.com), Vol 6 Issue 04.   
  
***Global Strategy: East/Southeast Asia  
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**Chinese stock market plummets 3% in one trading day.** The Chinese government, via its state-controlled media, always plays offense with respect to the nation's economic stability and growth, but it's hard to spin Thursday's huge market loss as a positive. Fears and concerns over the trade war, national debt levels, and massive government infrastructure spending all conspired to spook investors out of Chinese stocks, sending the benchmark Shanghai Composite down just shy of 3% on the day. The Shanghai has lost one-quarter of its value since the start of the year, while the US benchmark S&P 500 is up 5% year-to-date.    
  
***Economics: Housing  
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**Higher prices and higher rates combine to pound down new mortgage applications.** One week does not make a trend, but the 7.1% drop in weekly mortgage applications certainly reflects buyer angst over higher prices and higher rates. Between summer and autumn of 2016, 30-year mortgage rates troughed at about 3.41%; last week, that rate hit 4.95%. To be sure, that one-year high doesn't come close to the long-term average of 8.10%, but it does give buyers one more excuse to pause on that purchase. The bright news for homebuilders and the economy? It doesn't look like rates have much further to go—considering our relatively tame inflation numbers—before they stabilize and the Fed puts the brakes on rate hikes.   
  
***Economics: Goods & Services  
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**US manufacturing capacity rises for 16th straight month.** The American industrial resurgence marches on. Manufacturing capacity, which is the capability of a plant to produce output for a specified period of time, rose in the United States for the sixteenth-straight month, adding fuel to America's economic engine and providing some support for recent stock market valuations. The Federal Reserve, which compiles the report, also noted that US factory output rose in September, pushing overall production up 0.3% for the month. US oil and gas production, which has steadily increased over the past eighteen months, was an important component of the glowing report, as were the corporate tax cuts, which spurred industrial companies to spend more on increasing their overall plant capacity.   
  
***Economics: Work & Pay  
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**Job openings in the United States just hit an all-time high, and it wasn't even close.** The US Department of Labor just released a remarkable statistic: there were 7.14 million new job openings in the month of August. Not only hasn't that figure ever surpassed seven million before, it only surpassed the six million number for the first time in history in April of 2017. The JOLTS (Job Openings and Labor Turnover Survey) figure also showed a record number of new hires in August: 5.78 million. The jobless rate in the US fell to 3.7% in September—the lowest rate in nearly half a century.   
  
***Pharmaceuticals  
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**The Trump Administration has a novel message for drug companies: show the price in your ads.** President Trump has railed against high drug prices since he was candidate Trump. (Oddly enough, the *political organization* AARP has never given him credit for this, but that's an easy one to figure out.) Now, his Health & Human Services Secretary, Alex Azar, is pushing an interesting new rule for big pharma: show the list price of the drugs you are advertising. The pharma industry has given a counter-offer: they want to direct viewers to a website where the list price of the drug will be shown. Considering the $5.8 billion spent on drug commercials in 2017, the big broadcasters may be the ones getting hit hardest if this rule is put in place. As for Secretary Azar, he understands the industry intimately, as he was a top executive at Eli Lilly (LLY) before taking the helm at HHS.  
  
***Global Strategy: East/Southeast Asia  
​***  
**Think China's debt load is too high? You don't know the half of it.** There have been many alarming stories published over the past few years with respect to China’s unsustainable debt load, which threatens to quash the country’s steep growth trajectory. According to a report issued by S&P Global Ratings, conditions may be even more dire than known. As could be expected, the Communist Central Government in Beijing controls how much Chinese provinces and other local governments within the country can spend. To skirt these restrictions, however, these entities have been turning to local government financing vehicles, or LGFVs. These are off-balance sheet debt loads hidden from the world’s rating agencies, but they are very real, nonetheless. In the next issue of The Penn Wealth Report, we delve into China's real debt load, which could be *double* what the communist government is reporting.  
  
***Aerospace & Defense  
​***  
**Harris, L3 to have "merger of equals," creating sixth-largest aerospace behemoth.** While we haven’t traded L3 Technologies (LLL $180-**$219**-$219) much in the past, Harris Corp (HRS $134-**$172**-$171) has been one of our favorite “under-the-radar” (no pun intended) defense contractors for decades. It took us by surprise when we heard the two companies had agreed to a “merger of equals,” but the potential synergies created by a combination are palpable. Harris is a $20 billion communications equipment company which makes products for space and intelligence systems, air traffic management, energy and maritime companies, and ground network operations. LLL is a $17 billion industrials company that makes high-tech products, systems, and subsystems for the defense electronics business. The two companies would fit together like two adjacent pieces on a puzzle, with very few little overlap. While shareholders at both firms need to approve the all-stock deal, it is as good as done. In the next issue of the Penn Wealth Report we discuss the merger in further detail.   
  
***Multiline Retail  
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**Sears (finally) pulls the trigger on bankruptcy, Lampert will change his title.** Until it lost the honor to Walmart (WMT) in 1990, Sears (SHLD $0.34-**$0.41**-$6.83) was America's largest retailer. In April of 2007, the company had a share price of $133 and a market cap of $23 billion. Then Eddie Lampert and his eponymous ESL Investments began steering the company, along with the Kmart brand they picked up along the way, down the river of its slow, painful demise. Today, SHLD shares are selling for 40 cents, and the combined company is worth a paltry $44 million. As suppliers are no longer willing to take any of Lampert's refinancing deals, the company has been forced to file for bankruptcy. While Lampert will step down as CEO, he will remain chairman of the firm. Five years ago, the company had around 2,000 stores nationwide. Today, that number has fallen to 700, with another 142 to be shuttered by year's end. Lampert says the Chapter 11 bankruptcy proceedings will give the company time to speed up its "strategic transformation" and "return to profitability." It's hard to say whether he really believes that, but one thing is certain—the creditors do not.

***Headlines for the Week of 07 Oct — 13 Oct 2018***

***The headlines you need, without the mainstream slant...***

***Market Pulse  
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**Don't fear Wednesday's 3% selloff.** It is never fun to see screaming-red headlines on the news sensationalizing a massive market selloff. Of course, the Dow is always mentioned first because of the law of large numbers: Wednesday's 832-point plummet sounds more dramatic than the S&P's 95-point drop (though the S&P drop actually did more damage). When the trading day ended, the Dow and S&P 500 were each down just over 3%, and the Nasdaq was down just over 4%. The reason for the big selloff? Fear that rising interest rates will harm the corporate earnings outlook, as input costs will rise. This reminds us of the "Taper Tantrum," that period when it became obvious to Wall Street that the Fed would soon begin raising interest rates for the first time in over a decade. We thought the same thing back then as we do now: of all the reasons for a massive market selloff, we will take rate hike fears. Not a slowing economy; not rising inflation; not high unemployment; not a banking crisis; not an attack on our soil; just rising rates—rates which are still below normal. As for perspective, look no further than the graph. Wednesday's drop took the Nasdaq back to July levels, and both the Dow and S&P back to August levels—all well ahead of where we were in February. Fundamentally, we still look strong, and the US is faring much better economically than virtually any other major area around the globe. If it makes you feel any better, look no further than the MSCI China All Shares Index, which is now down 21% year-to-date.  
  
***Automotive  
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**Honda will invest nearly $3 billion in GM's autonomous vehicles.** Honda and General Motors (GM $32-**$33**-$47) are teaming up to build autonomous vehicles, with the former seeding GM with $750 million and the promise of another $2 billion. GM Cruise, LLC will develop autonomous vehicles from conception to design to production, with plans to sell the vehicles around the world and share the revenues (Honda will have a 5.7% stake in the new firm). This is a huge win for GM, and a great plan overall. Honda had been in talks to work with Alphabet's (GOOG) autonomous division, Waymo, so this is quite the coup for GM. It is also another hit to Ford (F), which dropped on the news. We had high hopes for Ford after, ironically, its former smart car boss—Jim Hackett—took over as CEO. It has been a relatively steady decline for Ford shares since Hackett took the helm in May of 2017. If he is not careful, he will go the way of GE's 13-month CEO Flannery and be shown the exit door. The other shoe for Ford will drop when the company's is forced to slash its now 6.7% dividend yield.      
  
***Restaurants  
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**The hedge fund manager we cannot stand just made a trade we do not like.** Pershing Square's Bill Ackman. One of those arrogant guys it is just so easy to dislike. It has been a case of schadenfreude with respect to his recent lousy decisions: buying JCP under Ron Johnson; buying Valeant under Rubenesque blowhard CEO J. Michael Pearson; dogging out well-run company ADP, demanding the CEO's ouster; you get the picture. Now, the former darling of the hedge fund world just made another call we believe he will regret (but never admit to regretting): he bought a 1.1% stake ($775 million if you buy his stated share price) in Starbucks (SBUX $47-**$57**-$62). Ackman argues that the younger generation is ditching soda for coffee, and China remains a huge under-tapped market for the drink. Both may be true, but Starbucks does not operate in an industry vacuum any longer. Anyway, we find ourselves once again rooting for him to fail.    
  
***Basic Materials: Chemicals  
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**PPG plummets double-digits as sales disappoint, raw materials costs rise.** We made a lot of money on Pittsburgh Paint & Glass, otherwise known as PPG (PPG $100-**$99**-$122), over the past several years. So much so, in fact, that we sold the company with a nice profit last year, our sell decision being based solely on valuations. Timing was good. PPG plummeted 10% after the company announced that Q3 earnings would decline from the previous year's third quarter earnings. In addition to "disappointing" sales, the specialty chemicals maker (think pigment for autos and dozens of other similar products) is also getting pounded by the rising costs of the raw materials it uses in product development. Weakening foreign currency exchange rates (as compared to the USD) and softer demand from a slowing Chinese market also played a factor in the sales decline. Shares fell below their 52-week low on the announcement.    
  
***Global Strategy: Latin America  
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**Brazil's market rocks as Conservative, pro-business candidate one step closer to presidency.** Since 1985, Brazil has been under the control of several leftist presidents. Needless to say, corruption was rampant during that timeframe and the Brazilian economy went south. Former President Lula da Silva (2003-2011) is now in prison, and his protégé, Dilma "Aunt Bea" Rousseff was kicked out of office in 2016. It appears as if Brazilians have seen enough losing. Former Army Captain Jair Bolsonaro is on the precipice of pulling off an unlikely victory for the presidential suite. The pro-business Conservative pulled in 46% of the national vote amongst a crowded field of competitors—17 percentage points higher than the next-closest candidate. The world's fourth-largest democracy is dusting off the cobwebs of Latin American socialism and, once again, prepared to embrace capitalism. A devout Christian, Bolsonaro ran on ideas like strengthening public safety, loosening the gun laws to allow citizens the right to better protect themselves, ridding the government of corruption, and reducing government control of businesses operating in the country. The final step on the road to victory? Bolsonaro must beat (he will) Workers' Party candidate Fernando Haddad in the 28 Oct runoff. Suddenly, democracy and free enterprise are blossoming once again in Latin America—well, except for Mexico, which just elected a leftist president. Let's compare the Mexican economy over the next four years to that of Brazil's. Our money is on the latter.

***Headlines for the Week of 31 Sep — 06 Oct 2018***

***Boeing has a serious winning streak going; the company just won a $9 billion contract to build the next-gen trainer...***

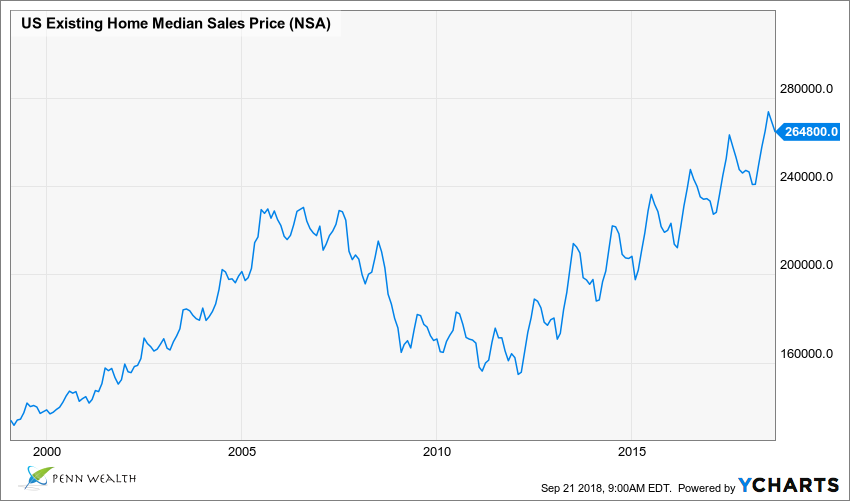


*Courtesy:* [*Boeing*](https://www.boeing.com/defense/t-x/index.page?gclid=CjwKCAjworfdBRA7EiwAKX9HeCsl9GKodJos3I351DwxH-Xr1ikEWG1qxj6kU5P5t4U0bxrv3p4caxoCcRQQAvD_BwE#/wallpaper)

***Cybersecurity  
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**US, UK, Dutch authorities bust massive Russian hacking effort.** In a joint effort to counter cybersecurity threats, officials from the United States, Brittain, and the Netherlands have busted Russian GRU (the country's military intelligence unit) officers in a massive, years-long hacking campaign. In one effort of the campaign, these agents tried to hack into the computers of the Organization for the Prohibition of Chemical Weapons. This followed the Kremlin's use of deadly nerve agents on targets in Britain. In another, agents attempted to gain entry into the servers of international antidoping organizations and the email accounts of officials at the agencies. Recall that Russia was banned from the 2018 Winter Olympics due to the use of illegal substances by athletes. Most disconcerting, US intelligence officials caught the Russians trying to hack into the servers of nuclear reactor design company Westinghouse Electric Corp. This involved setting up fake corporate domains, sending phishing emails to employees at the firm, and attempting the outright theft of employee credentials. On Thursday, the US Department of Justice indicted seven Russian intel officers for their role in the hacks.  
  
***Cybersecurity  
​***  
**Bloomberg investigation shows Chinese hacking of computer networks at highest levels.** Despite denials by the likes of Apple (AAPL), and Super Micro (SMCI), Bloomberg has released an exclusive report providing evidence that the Chinese, via their People's Liberation Army, have "seeded" tiny microchip spy devices in thousands of server motherboards; computer equipment that was sold to at least 30 American companies, including Apple. The devices were implanted during the manufacturing process at Chinese facilities, and (according to the Bloomberg report) at Super Micro Computer (SMCI), a San Jose-based server manufacturer which employs primarily Asian workers. These devices, which Amazon (AMZN) first uncovered and reported on to US authorities, allow the attacker to create a "doorway" into any network on which the servers reside. Consider this: these are "viruses" which are impossible to remove, because they are part of the machine's hardware, not software. The networks in question run the most sensitive systems from a national security standpoint, operated by agencies such as the CIA, NASA, and the Department of Defense. This story should send shivers through the US intelligence community, and it should be the impetus needed to begin the search for other sources of manufacturers, outside of the reach of the Chinese military. This story also portends a long, ugly road ahead for US-Chinese trade negotiations. This is precisely the type of illegal intellectual property theft the Administration has railed against. Super Micro fell by 33% shortly after the Bloomberg article was released.  
  
***Economics: Work & Pay  
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**Blowing past expectations, private sector adds 230,000 new jobs.** And the incredibly strong economy just keeps rolling along. The American private sector added an aggregate 230,000 new jobs in the month of September—24% more than the 185,000 economists had predicted. Buttressing the importance of the tax cut for everyday Americans (and small business owners), most of those new hires came from small- and mid-sized businesses in the services sector. According to ADP, a small-sized company is one which employs between 1 and 49 workers, while a mid-sized firm employs between 50 and 499 workers. It looks as though the ultra-low unemployment rate is not done falling.   
  
***Pharmaceuticals  
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***(Holding Update: Penn Global Leaders Club)* Pfizer's dynamic CEO to step down from that role in 2019.** We are placing pharmaceutical giant Pfizer (PFE $33-**$45**-$45) on watch after a CEO we have highly touted, Ian Read, announced that he would be stepping down from that role at the company in early, 2019. Chief Operating Officer Albert Bourla will take over the position. Pfizer skillfully navigated some turbulent waters during Read's eight year tenure, and he helped the company build an impressive pipeline of drugs. Bourla also has an impressive resume during his 25 years at the company, but it still makes us a bit nervous. One upside: Read will take on the role of executive chairman of the board after he steps down from his CEO position.    
  
***Specialty Retail: e-Commerce  
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**(Without a government mandate,) Amazon raises minimum wage to $15/hour.** It is amazing how many people—and the dolts they elect to represent them—don't understand basic economics. That thought came to mind as we read the Amazon (AMZN $950-$2,007-$2,051) press release announcing the company's plans to raise the minimum employee wage to $15 per hour. Why do it? Because the company now has a quarterly free cash flow of $4.2 billion and earnings per share of $6.32. *And*, they want to attract and retain the best workers in an ultra-tight (thanks to America's booming economy) labor force. This new minimum wage will also apply to the 100,000-strong temp workforce the company will bring in for the Christmas holiday season. Don't believe what Crazy Uncle Bernie says, this occurred because of the company's profitability, not government pressure. If Crazy Uncle Bernie wants to take credit, let him.    
  
***Global Trade  
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**Another trade deal done, and this one was huge.** The lousy, 24-year-old NAFTA deal is dead. Long live the US-Mexico-Canada Agreement, or USMCA. While the limited trade agreement reached with the EU a few months back was good, and the US-Korea Free Trade Agreement (KORUS) was better, the new North American deal is huge. It ends the bickering between the three nations with respect to trade, helps America's manufacturing base, and puts the entire continent on better footing with respect to world trade. It also helped the US garner two new allies on the united front against China's unfair trade practices. The stock market agreed, with the Dow jumping a few hundred points after the deal was inked. While legislators in all three nations must still approve the USMCA deal, there is little chance that any will shirk their duties, as that would mean an enormous setback in free trade. While the Democrats might well win the House this November, and they would love to deal a blow to President Trump, we don't believe their constituents would let them pull off something so audacious as killing this trade deal. Their radical fringe would love it, but there are still too many blue collar voters and unions aligned with the party to let that happen, except in the most unhinged districts. Next stops on the trade train: a deal with Japan and a more extensive deal with the unruly and petulant EU, led by the likes of Trump-hater Angela Merkel.  
  
***Industrial Conglomerates  
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**GE fires Flannery after thirteen months on the job.** After it became apparent that General Electric's (GE $11-**$12**-$25) new boss was a lot like its old boss (who presided over a disastrous period for the once-great company), the board decided enough was enough. After just thirteen months in the role, GE's board of directors fired CEO John Flannery. Not only wasn't the company moving in a positive direction, it appeared as if Flannery was continuing to dig even deeper into the hole in which Jeffrey Immelt placed the company. Great units were being sold off, and a general sense of disarray permeated the company. The final straw came with the 2018 full-year guidance: the company would miss both revenue and profit targets. Additionally, GE announced it would take a $23 billion write-down for its power unit. There is some good news: the board tapped former Danaher CEO—and current GE board member—Larry Culp as the new chairman and CEO. Culp had an impressive record heading up the $76 billion healthcare firm. Is it too late for a turnaround act at General Electric? Perhaps. But, if anyone can pull it off, it is probably Culp. GE was up double-digits on news of Flannery's firing.    
  
***Multiline Retail  
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**JC Penney falls double-digits (again) after CFO leaves firm.** Granted, when your company's stock is selling for a few dollars a share, it doesn't take much to move the needle by double—or even triple—digits. Nonetheless, it was another bad headline JC Penney (JCP $2-**$2**-$5) did not need. The catalyst for the latest 10% drop in the stock was news that the company's chief financial officer, Jeff Davis, was leaving after fourteen months on the job. When someone who can see the financials in all their glory decides to bolt, it is probably not a good sign that a recovery is around the corner. The company is now down 50.5% year-to-date and has a market cap of $493 million. Just over a decade ago, JC Penney was a $20 billion company. This was not inevitable. Instead of installing a strong, forward-looking management team, the company made disastrously-bad decisions which led them to this point.     
  
***Automotive  
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**Musk settles with SEC, causing shares of Tesla to spike.** The SEC and Elon Musk have settled out of court, and the markets celebrated. Despite the organization's draconian demands in the lawsuit stemming from Musk's boneheaded tweet about taking Tesla (TSLA $245-**$305**-$387) private, there was every possibility that they would have ultimately won—they are, after all, the government. Musk, who had rejected the initial plea deal offered by the SEC, was convinced by his lawyers to request another plea. The SEC reluctantly agreed, but made the terms stiffer: Musk would have to pay a $20 million fine, the company would have to pay a $20 million fine, and Tesla's founder would be barred from the chairman's seat for three years. Additionally, the company would have to create two new independent board seats, and Musk would have to have any social media comments reviewed before posting. It sounds like a rough pill to swallow, but considering the SEC's lawsuit sought to have Musk banned for life from a management role at Tesla, it had to be taken. This should allow Musk, who was allowed to retain his position as CEO, to return his focus to Model 3 "logistics hell." Tesla spiked over 16% on news of the settlement.   
  
***Aerospace & Defense  
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**Boeing notches another huge win over Lockheed—awarded the new US Air Force trainer contract.** Earlier in the week, we reported that Penn Global Leaders Club member Boeing (BA $253-**$367**-$374) won a $2.4 billion contract to build the replacement for the aging Huey chopper fleet. Now, the company can boast a much bigger prize: it beat out Lockheed Martin (LMT) in a bid to build a new trainer for the United States Air Force. The contract, worth up to $9.2 billion, will allow Boeing's T-X program to move forward, building at least 351 jets, 46 simulators, and associated ground equipment. The T-X (yet to be numbered and named) will replace the venerable T-38 Talon fleet which has been used to train military pilots for two generations. Boeing, which is risk-sharing this project with Sweden's Saab Group (SAABF), will build the aircraft at their St. Louis, MO facilities.   
  
***Media & Entertainment  
​***  
**Fox to sell remaining Sky position to Comcast for $15 billion.** Four days after a fat bidding war gave majority ownership of Sky PLC (BSYBF $12-**$22**-$23)—the UK's only satellite television provider and the country's largest pay-TV provider—to Comcast (CMCSA), Fox (FOX)  threw in the towel and announced it would sell its remaining stake to Comcast for just over $15 billion. This is really a win-win for both Comcast and Disney (DIS), which would have gained control of Sky after its deal to buy a wide swath of Fox assets closed. While Comcast paid a huge premium for Sky, Disney can use the proceeds from Fox's 39% stake in Sky to help pay down some of the $71 billion it paid for the Fox assets. Additionally, had Disney ended up with Sky, the company would have probably been forced by regulators to divest itself of other units as part of the deal. For the record, we purchased Disney in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) last year for $96.92.  
  
***Monetary Policy  
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**Fed sees bright economic future, raises rates once again.** The Federal Reserve is bullish on the growth within the US economy, and they do not want that growth to lead to runaway inflation (even though there are really no signs of this happening). With that as the backdrop, the FOMC raised the Fed Funds Rate 25 basis points on Wednesday, to 2.25%. ​But they didn't stop there. After raising their economic outlook for the country, members also projected one more hike this year and three in calendar year 2019. In the long run, however, they see a stable Fed Funds Rate at 3%, meaning a few potential rate cuts after 2020. While we don't necessarily believe they will deliver on the four-more-hikes prediction, what would this do to the 30-year mortgage rate? Although certainly still below generational highs, the average mortgage would probably cost buyers 6% to 6.25%. With existing-home sales already slowing, that could certainly impact homebuilders. However, we still see that in the manageable range—not high enough to hurt the economy. From an investment standpoint, we should continue to see improved yields, which will provide welcome relief to those seeking more income but less risk.   
  
***Energy Commodities  
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**Crude hits four-year high, but not everyone is hurting.** Most people cringe when they see the price of oil go up. Not only does that equate to spending more money at the pump, it also helps many of our enemies, or at least "questionable friends" around the world, such as Russia and OPEC member-states. Since America's energy renaissance, however, at least we can take a little comfort in the fact that the American energy sector, and its mostly blue collar workforce, also reap the benefits of higher oil prices. Take a look at the chart: crude just hit $71.76 per barrel, a four-year high; but US oil production followed suit, hitting a remarkable 11 million bpd. With new Iranian sanctions taking effect soon, Venezuela offline due to political strife, and OPEC/Russian desire for $80/barrel, we wouldn't be shorting oil right now. The one bright spot, we believe, is the fact that China's rate of economic growth continues to slow.    
  
***Global Strategy: East & Southeast Asia  
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**US, South Korea finalize trade deal.** The United States and South Korea held an official signing ceremony at the United Nations this week to celebrate a new trade deal, or at least a major revamp of the KORUS deal on the books between the two allies. Korea exports just over $10 billion more in goods and services each year to the United States than the US does to South Korea. This new trade deal is an attempt to rectify that situation. Under its terms, South Korea will now allow each American automaker to export 50,000 vehicles annually into the country which meet US—not South Korean—safety standards. A 25% tariff on Korean trucks coming to the US not only remains in place, it has been extended to 2041. With respect to steel, the Asian country agreed to slash its exports to the US by nearly one-third; in return, the country's steel exports no longer face the 25% tariff imposed on imports by the Administration. South Korea is currently the third-largest exporter of steel to the US. This was a nice win for both countries: the US will get a "more-level" playing field, while Moon Jae-in garnered more support in his efforts to mend ties with North Korea. After discussing the recent meeting between the two Korean leaders, President Trump announced that a follow-up meeting with Kim Jong-un will take place soon.  
  
***Aerospace & Defense  
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**Boeing beats out Lockheed, Sierra Nevada to win Huey replacement contract.** The Pentagon has awarded a $2.4 billion contract to [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Boeing (BA $251-**$368**-$374) to build a replacement for the aging UH-1N Iroquois choppers, affectionately known as "Hueys." Boeing, which teamed up with Italy's Leonardo SpA for the bid, will build the 84 military choppers at its facilities near Philadelphia, PA. The "MH-139" aircraft will be used to help protect America's ICBM sites around the country, as well as  other critical tasks around the world. Boeing beat out privately-held Sierra Nevada and the famed Sikorsky unit of Lockheed Martin to win the Air Force deal.  
  
***Restaurants  
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**Sonic to be acquired by private restaurant conglomerate Inspire Brands for $2.3 billion.** Back in early summer, iconic American fast-food chain Sonic (SONC $23-**$44**-$45) had a market cap of just $879 million. After a nice fall rally, the company grew to about $1.25 billion in size. Double that amount and you have what Arby's and Buffalo Wild Wings parent Inspire Brands plans to spend to take the company private. Shares of SONC shot up 20% after the announcement. Recall that Inspire paid the same amount—$2.3 billion—to buy Buffalo Wild Wings last year after, in our opinion, years of mismanagement at that chain. Inspire seems to be building a fast-food and casual dining empire. Sadly, they are building that empire by taking out publicly-traded companies.   
  
***Textiles, Apparel, & Luxury Goods  
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**Michael Kors set to buy Versace, but what kind of headaches might come with the deal?** When Gianni Versace was gunned down in Miami Beach twenty-one years ago, his eponymous company was thrown into turmoil. His sister, Donatella, became creative director at the firm after the fashion designer died, but the family-controlled business hasn't been the same since. Now, in an effort to gain a foothold in higher-end European fashion, Michael Kors (KORS $46-**$67**-$76) has announced plans to buy the firm for around $2 billion. On its face, the deal makes sense for the growing Kors (the company bought high-end shoemaker Jimmy Choo last year for $1.2 billion), but several serious questions remain. Versace is closely-held by members of the family, many of whom may come along with the deal. Additionally, the company generated only around $920 million in revenue last year, with a paltry $20 million or so flowing down as net profit. Other fashion companies like Tiffany & Co (reportedly) balked at the price tag. What did investors think of the news? Kors fell 8% after the announcement.  
  
***Metals & Mining  
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**Barrick Gold to buy Randgold, creating an $18 billion mining behemoth.** The world's largest gold miner, Toronto-based Barrick Gold Corp (ABX $10-**$11**-$17), will acquire Randgold Resources Limited (GOLD $60-**$68**-$104), primarily a Sub-Saharan Africa miner, in a deal which will value the combined company at $18 billion. Under the terms of the deal, Randgold shareholders will receive just over six shares of Barrick for each share of GOLD they own. Barrick shareholders will then control two-thirds of the combined company, with CEO John Thornton becoming the executive chairman of the new entity. Considering that both of these companies have lost one-third of their market value over the past year, this was a good move. The synergies should allow the new entity to operate more efficiently; a critically important factor considering the recent drop in the price of gold. The market agreed—both companies rose about 7% on the news.  
  
***Media & Entertainment  
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**SiriusXM to buy Pandora for $3.5 billion.** In what would ultimately equate to bad news for listeners who enjoy free music, aggressive-marketing satellite radio service SiriusXM (SIRI $5-**$7**-$8) has announced its intent to buy rival Pandora Media (P $4-**$9**-$10) in an all-stock deal valued at $3.5 billion. Before news of the planned acquisition, Sirius had a surprisingly-high market cap of $30 billion (it fell 5% in pre-market) and Pandora had a market cap of $2.6 billion (it popped 8% on the news). If the deal goes through as expected, the new entity would be the largest audio entertainment company in the world. SiriusXM has over 35 million paid subscribers and Pandora has over 70 million active monthly listeners. Pandora, which has free listening option for members, has been bleeding money annually since it went public, while Sirius, which only has a subscription model, has recorded a positive net cash flow since 2010. ​Speaking from experience, the Sirius platform is simply unrivaled, but the sales tactics used as a subscription period nears its end are relentless and aggressive. In other words, the company uses a vastly different strategy than does Apple (AAPL) with its music streaming service. We love the SiriusXM service, but we wouldn't touch the stock.

***Headlines for the Week of 16 Sep — 22 Sep 2018***

***Airstream's parent company makes bold move into European, Chinese markets with acquisition...***



*Photo courtesy:* [*Penn Wealth/YCharts*](https://www.penneconomics.com)

***Market Pulse  
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**After another solid week, the major indexes rock into Autumn.** Now that the St Leger Day horse race is done, we suppose it is "safe" to get back in the markets ("sell in May, go away..."). Actually, any investor out of the markets this summer missed a great run in equities, and it appears to still be going strong. The Dow and S&P indexes hit new all-time highs this week as investors seemed to grow  weary (and leery) of the "great trade war" fears fomented by the media. We have actually noticed some cracks in the firewall, with a couple of journalists finally pointing out that China simply doesn't have near as much ammo as the United States does in the skirmish. Refreshing to see them take a break from the false narratives. And remember how we were told that investors would throw a tantrum when the 10-year Treasury yield hit 3%? It did just that this past Tuesday—as the Dow was busy climbing 185 points. All-in-all, a good week. Next on the horizon: an almost certain rate hike next week (yawn), and the mid-term elections (potential trouble for markets).   
  
***Housing  
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**Mortgage rates hit their highest level in seven years, forcing would-be buyers into action.** One year ago, the average 30-year mortgage rate in the US was 3.78%. As of right now, that figure sits at 4.87%—the highest it has been since the spring of 2011. Something else has been going up this year: the cost of buying a home. In the first quarter of 2018, the US existing home median sales price was $240,800. That figure has spiked 10% since January, and now sits at $264,800. With the promise of more Fed rate hikes coming between now and the end of 2019, the Mortgage Bankers Association reported a 1.6% rise in mortgage applications within the past week. Here's the simple fact, however: this rate hike cycle has a definite cap on it, and it is in the 4% or less range for the fed funds rate—a far cry from the 7% or higher rates we have seen in the past. This should set up a Goldilocks scenario for the housing market, homebuilders, and new homeowners over the next several years.  
  
***Aerospace & Defense  
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**Airbus's nightmarish A320 delays are more good news for Penn member Boeing.** Airbus SE (EADSY $22-**$31**-$32), the EU government-supported European aircraft maker, is having a turbulent year. The latest blow comes in the form of costly delays to its A320neo (new engine option) aircraft line, which the company touts as the world's most advanced and fuel efficient single-aisle aircraft (think of it as a competitor to Boeing's widely-successful 737). The company announced that it needs another year to get A320 production back on track after a series of design snags and supplier problems. In another blow to the company, Airbus's head of sales, Eric Schulz, abruptly left that post after just nine months with the firm. Schulz had been the President of Civil Aerospace at Rolls-Royce plc prior to the gig. All of this is good news for American aerospace giant (and Penn Global Leaders Club member) Boeing (BA $251-**$371**-$374), whose shares have been climbing back near their 52-week high.  
  
***Food Products  
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**Agriculture is getting pounded from Hurricane Florence.** In addition to its devastating effect on the lives of millions in the region, expect the fallout from Hurricane Florence to include higher poultry prices at the supermarket. It's hard to fathom, but somewhere around 3.4 million chickens and turkeys have been destroyed by the storm, along with nearly 6,000 hogs. Nearly half of all tobacco grown in the US comes from North Carolina, and those crops were devastated, along with fields of sweet potatoes, corn, and cotton. Overall, the best estimate at the aggregate damage caused by the hurricane now sits above the $20 billion mark, with the overwhelming majority of that damage taking place in the Carolinas. Agriculture, insurance, and restaurant firms operating in the region have been most impacted by the hurricane, while mobile generator manufacturing firm Generac Holdings (GNRC $43-**$59**-$61) is up about 6.5% in the past month.   
  
***Automotive  
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**Airstream parent makes its biggest purchase ever with German acquisition.** Airstream. That iconic, uniquely-shaped monstrosity which conjures up images of an American family on vacation—circa 1955. It would have been easy for Airstream's parent company, Thor Industries (THO $88-**$102**-$161), to spiral into a slow demise like so many other generations-old consumer discretionary companies. Instead, through astute strategic planning and slick marketing, the $5 billion mid-cap is flush with cash, and it is about to spend some of that cash to grow internationally. Thor has announced it will acquire German RV-maker Erwin Hymer Group in a $2.2 billion cash and stock deal. Hymer boasts a couple of dozen brands of RVs, campers, caravans, and accessories. The purchase is part of Thor's plan to move into new markets, especially those in Europe and China. THO has a tiny p/e ratio of 12, and booked sales of $8.4 billion worth of equipment over the trailing twelve months—nearly all of which came from the US and Canada.  
  
***Consumer Finance  
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**Merchants notch a victory over credit card swipe fees.** For years, merchants have been held hostage to the arbitrary fees they get hit with every time a customer swipes a Visa (V) or Mastercard (MC) piece of plastic through a machine at their respective establishments. Now, as a result of a thirteen-year-old class action lawsuit, the card issuers will pay a tiny bit of those fees back. The two big credit card issuers and a number of banks have agreed to pay $6.2 billion to settle the fight. Visa will pay the lion's share of the agreement—$4.1 billion—with the remaining companies ponying up the rest. Don't feel too bad for the credit card issuers, however, as they have had a strong run over the past year and their shares seem to be shrugging off the news of this settlement.  
  
***Global Strategy: Europe  
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**In typical elitist fashion, London's mayor calls for new Brexit vote.** Full disclosure: London's mayor, Sadiq Khan, is a full-throated leftist, angry at the UK's Brexit outcome from the day the surprise results were announced. Against that backdrop (lest anyone think he is simply a nonpartisan Londoner), the mayor, who tried to ban President Donald Trump from entering London, has called for a second Brexit referendum. In his "anguished" speech, the mayor decried the prime minister's handling of the negotiations and said that a new referendum was the only way to clear the air. i.e. he didn't get the results he wanted, and is now throwing a temper tantrum. The second referendum has been dubbed the "people's vote" by supporters like the hapless Khan, whose politics are in the same vein as New York's socialist mayor DeBlasio. If this new vote is the "people's vote," who, exactly, voted in the first referendum?  
  
***Interactive Media & Services  
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**Twitter falls after analyst downgrades, calls accounting into question.** “Smoke and mirrors” was the term Michael Nathanson at [MoffettNathanson](https://www.investopedia.com/news/twitter-crash-30-cost-growth-accelerates-moffettnathanson/?partner=YahooSA&yptr=yahoo) used to describe some aspects of Twitter’s (TWTR $17-**$29**-$48) financial accounting for the first half of the year. Nathanson noted that investors will soon take into account the growing demand for the vast amount of cash needed to run the business—cash the company doesn’t have on hand. In the end, the analyst reduced his rating on the stock to a “sell,” and reduced the price target from $23 to $21 per share—a 28% drop from the current price. (Note: this story falls into the new GICS category "Interactive Media & Services," formerly "Internet Software & Services." The industry can be found under the new "Communication Services" sector.)  
  
***Specialty & Generic Drugs  
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**Teva pops 8% on FDA approval of migraine drug.** Israeli drugmaker Teva Pharmaceutical Industries (TEVA $11-**$25**-$26) seems to be on a comeback tear. After bottoming out at $10.85 per share last November, the $25 billion company has clawed back to within a dollar of its 52-week high.  The latest surge came after news that the FDA had approved the company's injection for the preventative treatment of migraines. Ajovy will cost around $600 per monthly injection and be available in pharmacies sometime in early October. Teva still has a long way to go to regain its multi-year high of $71 per share, which it hit back in the summer of 2015.

***Headlines for the Week of 09 Sep — 15 Sep 2018***

***Major shakeup in Sweden...***

***Multiline Retail  
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**Target's Christmas hiring plan portends good things for economy.** Retail is often a strong harbinger for the overall economy. After all, if consumers are in dire financial straits or don't feel good about their economic prospects, they don't buy as much; and vice versa. This is why we should pay attention to what major retailers are doing, as they are an indicator of sentiment. To that end, multiline retailer Target (TGT $54-**$88**-$90) just announced their 2018 plans for the upcoming Christmas and holiday season. The company will hire 120,000 seasonal workers this year, which is 20% more than last year (which was more than the previous year). Workers hired for the holiday rush will start out making $12 per hour, and will receive the standard employee discount on purchases. Target's hiring plans are anecdotal, but we see a robust economic environment going into the 2018 Christmas season, with both consumer confidence and business confidence levels near all-time highs.     
  
***Consumer Electronics  
​***  
**Sonos had to have a perfectly stellar quarter; it didn't.** Any time we are reviewing a specific company, one of the paramount questions we ask is, "what is this organization's unique value proposition?" To survive and thrive in a competitive business environment, a company must offer a solution that consumers strongly desire, and a solution that is difficult to replicate by others. That is why we were skeptical when wireless speaker company Sonos (SONO $16-**$18**-$24) went public last month at $15 per share. The company makes cool wireless speakers for in-home use, but what's to stop larger companies (think Apple, for example) from making similar products? Under that backdrop, all eyes were on Sonos Inc's first quarterly report as a publicly-traded entity. Wall Street expectations were met—the company brought in $208 million in revenue—but sales were down 7% from the same timeframe last year. Further down the income statement, the company accumulated $27 million in net losses—nearly double the $15 million lost in Q3 of 2017. Shares plunged 16% in after-hours trading on the earnings report. Keep in mind that investors drove SONO shares up to $23.60 within days of the IPO.   
  
***Specialty Retail  
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**KeyBanc analyst upgrades Restoration Hardware after big sell-off.** Earlier this month, shares of luxury home goods retailer Restoration Hardware (RH $68-**$126**-$164) plummeted from $162 to $122 after the company lowered its 2018 revenue guidance. KeyBanc Capital Markets analyst Bradley Thomas believes investors overreacted to the (actually pretty decent) report, and upgraded the company from Sector Weight to Overweight, with a price target of $166 per share—a 32% gain from here. Without doubt, the upper-end American consumer is spending robustly, and this should help a company like RH. What worries us, however, is the rich 90 multiple on the shares—and that is *after* the drop. We would steer clear.  
  
***Road & Rail  
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**Trucker US Xpress Enterprises launches "Full Ride" scholarship program for employees, dependents.** US Xpress Enterprises (USX $13-**$16**-$17) has only been a publicly-traded company for about three months, but the trucking firm has launched a new employee benefits program which is earning it high marks on Wall Street and praise from its workforce. Touted as the "first of its kind within the trucking industry," the company's "Full Ride" program will provide scholarships covering 100% of tuition at Ashford University for not only employees, but also their dependents. Under the program, any combination of two family members at any given time can get an online bachelor's or master's degree at the fully accredited Ashford at no cost. When one family member graduates, another can enter the program. The typical annual cost for students at Ashford is the same as the in-state tuition for most universities—around $17,000. With the robust state of the US economy and a 3.9% unemployment rate, the trucking industry is facing a serious shortage of drivers. US Xpress, the fifth largest asset-based carrier in the US by revenue, hopes to attract quality drivers with this new program. The company, which operates a fleet of 6,800 tractors and 16,000 trailers, was founded in 1985 and is based out of Chattanooga, Tennessee. Information on the program and becoming a driver for USX can be found at the [company's website](https://www.usxjobs.com/?utm_campaign=usxpresscom&utm_medium=website&utm_source=usxpresscom&utm_content=menuItem&utm_term).   
  
***Global Strategy: Europe  
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**Stunning surge by right-wing party in Sweden shakes up establishment.** Virtually every country in Europe has lashed out, in one way or another, against the EU's forced immigration policy—telling member-states how many immigrants they must accept. Over the weekend, Sweden added their name to the list as voter anger manifested itself at the polls, pushing the typically left-leaning nation further to the right. Up until now, the major ruling force has been an alliance between the leftist Social Democrat Party and the further-left Green Party. The leader of the Social Democrats, Stefan Löfven, also happens to be the current prime minister of Sweden. During the campaign season, the right wing Sweden Democrats ran an efficient campaign based primarily on two planks: immigration and crime.  This resonated with voters, and the party was rewarded by gaining nearly 20% of the national vote. Now, two allegiances must vie for power: one from the left (led by the Social Democrats), and one from the right (known as the Alliance). Both groups scored about 40% of the votes in the election. Calls for Prime Minister Löfven to step down are intensifying in the wake of the election, and the formation of a brand new government are all but certain.

***Headlines for the Week of 02 Sep — 08 Sep 2018***

***South Africa falls into recession...***

***Specialty Retail  
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**GameStop jumps on rumors it will go public, investors should take the opportunity to cut their losses.** Let's be frank: video game retailer GameStop (GME $12-**$16**-$21) had about as much business *going* public as Radio Shack had *being* public in its waning days. It is a digital world, especially in the video game industry, and GameStop's tiny moat shows its vulnerabilities. For anyone who still owns the stock, rumors that the company was looking to go private provided the best opportunity to trim losses—GME popped about 13% on the news. For anyone thinking that the company is a bargain at $15.75 per share, consider this: the stock has a p/e ratio of 407.  
  
***Global Strategy: Africa  
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**South Africa enters recession, currency falls against dollar.** The South African rand has fallen 16% versus the US dollar in the past six months, a precursor to the economic report issued this week showing the most industrialized economy on the continent has fallen into a recession. South Africa is the latest emerging market to hit turbulent waters this year, highlighting the risks investors face when buying into this asset class. The benchmark iShares MSCI Emerging Markets ETF (EEM $41-**$42**-$52) is now down 20% since it peaked back in January, and we see no reason to buy on the dip. As for South Africa, the 2nd quarter economic contraction of 0.7% is bad news for President Cyril Ramaphosa, who entered office in February armed with promises of economic reforms for this nation of 58 million.     
  
***Textiles, Apparel, & Luxury Goods  
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**Nike steps in it by signing Colin Kaepernick.** What a stupid move. It amazes us how many management teams have made the tactical decision lately to insert their publicly-traded companies into the political arena, knowing (if they are smart enough to realize it) that they will turn off a large percentage of their customer base in the process. Athletic apparel maker Nike (NKE $50-**$80**-84) is the latest, with their decision to hire washed-up former NFL quarterback Colin Kaepernick. The delusional Kaepernick, who still believes he was not given a new contract due to his political beliefs and *not* his horrendous play, will be featured in Nike's 30th anniversary "Just Do It" campaign. This is humorous for so many reasons. Perhaps, for example, if the QB had focused more on his professional athletic career and less on his hatred for the National Anthem and what it stands for, he might still be a viable spokesman for an athletic shoe company. As it stands, Nike has given a has-been another platform from which to spew his disdain for this country. We will remember that the next time we are shopping for athletic apparel. NKE was down 3% at the open.  ​

***Headlines for the Week of 26 Aug — 01 Sep 2018***

***Coca-Cola just made a major move into a high-growth arena...***



*Photo courtesy:* [*Costa Coffee*](http://www.costacoffeeforbusiness.co.uk)

***Automotive  
​***  
**Ford scraps plans to import Chinese-made auto, while GM will seek an exemption.** Due to the 25% tariff which would have been imposed on each vehicle, Ford Motor Company (F $9-**$9**-$13) has announced that it will cancel plans to import the Chinese-made Focus Active crossover to the US. Ford's chief US rival, General Motors (GM $35-**$36**-$47), is taking a different approach with respect to its Chinese-made Buick Envision—it will seek an exemption from the government on the tariffs. Both Ford and GM shares have been under intense pressure this year; the only saving grace is their 6.2% and 4.2% respective dividend yields.   
  
***Beverages  
​***  
**Coca-Cola just bought one of the world's largest coffee chains.** A few weeks ago it was BodyArmor. This week it is British coffee chain Costa. Coca-Cola (KO $41-**$45**-$49) is suddenly making some serious strategic moves, and we like it. As for Costa, Coke will pay $5.1 billion to buy the firm from Whitbread, Plc, giving it immediate ownership of nearly 4,000 locations across 31 countries.   
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​Don’t look for Coke to compete with Starbucks’ (SBUX) 28,000 stores however; this deal was more about getting the company’s toe in the door of a red-hot industry. While physical storefronts do build brand awareness, Coke plans to use its global leverage to get Costa products in stores, restaurants, and office buildings around the world. The company’s fizzy drink business has seen slowing growth over the past several years, so it will use this new addition to become adept at competing in a high-growth arena.  
  
To that end, Coke plans on keeping the entire Costa team in place, and it will glean what it can about the industry from the inside. When Coke CEO James Robert Quincey learned that Whitbread wanted to divest itself of the holding, he moved quickly—paying a $1 billion premium in the process—to snag the brand before another coffee chain was able to make an offer. Quincey, who is British, was very familiar with the Costa name—about half of the chain’s shops are located in England.  
  
Ultimately, expect to see Costa beans and drink products in grocery and convenience stores everywhere, as Coke’s massive marketing team and logistical advantage help push the brand. Also, expect the company to continue opening physical locations in China, Costa’s quickest-growing market. KO was down about 1% on news of the acquisition, while Whitbread Plc (WTBDY) was trading up around 14%.  
   
  
***Global Strategy: Middle East  
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**Unemployment, inflation, and broken promises are killing Rouhani, not American aggression.** America has been the go-to bogeyman for thug regimes in trouble around the world for generations, but there are signs, at least in Iran, that this story is getting old. Hassan Rouhani was reelected as president of Iran a year ago, convincing some 24 million voters that he would release political prisoners, give more rights to women, and get the economy back in shape. Fast forward a year. Iran now has a 12.5% unemployment rate, inflation is off the charts, and he has broken every one of his pledges for social change in the country. Conditions are so bad in the country that Rouhani was called before parliament this past Tuesday and given a rare verbal lashing. As further evidence that the new American actions are having an impact, legislators lambasted him for not dealing better with the US-led sanctions. The value of the Iranian rial has been cut in half since the new sanctions were announced: in January it took 40,000 rials to buy a US dollar; the exchange rate is now 100,000 rials to the dollar. Adding injury to insult, the Iranian parliament threw out Rouhani's economy minister, labor minister, and central bank governor to help change the economic landscape in the totalitarian country. It won't work. Only real reform and abandoning the Islamic state's nuclear ambitions can right the ship, and both of those courses are unacceptable to the hardliners running the show.      
  
***Food Products  
​***  
**After management ran Campbell Soup into the ground, a sale is the best option.** We have dogged Campbell Soup's (CPB $33-**$40**-$51) management—especially CEO Denise Morrison—for years. After 149 years as an entity, all it takes is one bad management team making lousy strategic decisions to end a storied company. Campbell Soup is still alive, but, after getting rid of Morrison, it is time to put itself up for sale. Instead, the company is selling off its international and fresh food lines only, such as Bolthouse Farms, in an effort to raise cash and pay down its massive debt. Campbell has a current market cap of just $12 billion, yet it spent over $6 billion to buy snacks firm Snyder's-Lance in a deal which closed earlier this year. In an interesting twist, activist Dan Loeb of Third Point is teaming up with a relative of founder John P. Dorrance, the "father of condensed soup," in an effort to force a sale. Other family members of the founder, however, are fighting that course of action. While several of them sit on the board (and are the largest shareholders), Loeb will push for ousting the entire board of directors as they come up for reelection later this year. There is no good way out for Campbell other than a full sale; the Dorrance family members should take the money and run.     
  
***Happiness Index  
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**Consumer confidence jumps to its highest level since 2000.** October of 2000, nearly eighteen years ago. That is the last time the American consumer was as confident as they are right now. The surprise reading, from a report conducted by Nielsen for The Conference Board, hit a remarkable 133.4 in August, up from a very high 127.9 reading in July. To put this in perspective, the Consumer Confidence Index hit a low of 38 in October of 2008 in the midst of the financial crisis. The American consumer is the engine for growth, not only in America but around the world. A full 70% of economic activity in the country, in fact, comes from consumer spending. The Consumer Confidence reading is also important to the Fed, as they use this number as a metric to help them shape monetary policy. Suffice to say that we can expect a rate hike at their September meeting.     
  
***Global Strategy: Trade  
​***  
**US/Mexico trade pact is a big deal; Canada will feel the heat to join the party.** So much for the joint effort against Donald Trump: Mexico just proved that bilateral agreements can be reached. Markets were up, and up big, after President Trump and Mexican President Enrique Pena Nieto held a joint news conference—with the latter on speakerphone—from the Oval Office to announce that the US and Mexico had reached a trade agreement. While the Mexican president still referred to the deal as being part of NAFTA, President Trump called for renaming the pact, due to its negative connotation. Canada is trying to put on a brave face, but this bilateral agreement puts the onus on the Trudeau government to join the party. The Mexican peso was stronger after the deal was announced (as could be expected), but so was the Canadian dollar—implying that Canada will now be more willing to strike a deal.    
  
***Global Strategy: Trade  
​***  
**Hogs, corn, and a railroad jump following news of US/Mexico trade deal.** While the general markets were rallying on news of a US/Mexico trade deal, certain segments did better than others. Kansas City Southern (KSU $99-**$118**-$119), the "NAFTA" railroad, spiked 4% on the news, while hog and corn prices rose because Mexico is one of the largest importers of American corn and pork. As for Kansas City Southern, the railroad operates a commercial corridor of the Mexican rail system with direct passage between Texas and Mexico City. By far, KSU is the major railroad most affected by North American trade, as it operates primarily on a north/south rail network.   
  
***Global Strategy: Europe  
​***  
**Italy to veto EU budget over failure of bloc to follow-through on immigration reform.** Recall that Italy is now being governed by leaders swept into power by Italian citizens angry with the lack of a cogent immigration policy on the continent. Fast forward to today: Italian leaders have vowed to veto the EU budget currently on the table because other European nations (Germany is the big antagonist) have refused to follow-through on an immigration deal hammered out in June. The issue came to a head with the the case of 177 immigrants sitting in a boat off the coast of Italy. Italian Interior Minister Matteo Salvini, a member of the Northern League (Lega Nord) party, wanted commitments by other European nations to take responsibility for the majority of immigrants before he would let the vessel dock. The Diciotti was finally allowed to dock in a Sicilian port after ten days at sea. The Lega Nord party wants more power for individual regions within Italy (think "states rights" in the US) and less for the central government, and certainly less for the European Union. In a sham, Salvini now faces a probe by his political enemies (who favor the EU) for "kidnapping and illegally detaining" the immigrants. This issue is red-hot in Italy, and the arrogant response coming from Brussels is only fueling the fire of discontent among the populace.

***Headlines for the Week of 19 Aug — 25 Aug 2018***

***Without a single citizen visiting the voting booth, Australians woke up to a new leader...***



*Skyline of downtown Sydney (Photo licensed)*

***Oil & Gas Refining, Storage, & Transportation  
​***  
**Pipeline company Enbridge raises offer to $3.3 billion to buy its own unit.** Energy infrastructure giant Enbridge Inc. (ENB $29-**$36**-$42) just raised its bid to buy Spectra Energy, the company's own master limited partnership (MLP), to $3.3 billion, or 1.111 shares of ENB for each Spectra share. In an odd twist, new US tax law allows for MLPs to change their structural form, thus permitting Enbridge to make this offer for its own unit. The company wishes to streamline its pipeline operations, and absorbing Spectra would go a long way toward that goal. Whether or not the deal is done (it probably will be), the combined entity is the largest energy storage and pipeline company in North America, with ENB offering a 7.46% dividend to investors. Enbridge is based out of Calgary, Alberta.   
  
***Restaurants  
​***  
**Is Papa John's grooming itself for a sale?** After the recent brouhaha featuring the company's founder, pizza delivery joint Papa John's (PZZA $38-**$45**-$79) fell into disfavor with investors. The company announced that it has hired Bank of America and Lazard to help the firm "stabilize" after the incident, but is this really a signal that the $1.4 billion small cap wants to put itself on the auction block? Under CEO John Schnatter, who founded the company back in 1984, there was absolutely no interest in selling out. However, now that management has essentially stripped him of all power, there seems to be little from stopping such a move—the company certainly doesn't hold the same sentimental value for anyone else on the board. Schnatter owns just under 30% of outstanding PZZA shares, and the company recently passed a "poison pill" plan to keep him from taking that stake to 51%. If we believe a sale is imminent, are shares a good deal at $44.70? Maybe. PZZA had a market cap of over $3 billion just two years ago. We don't see the risk/reward being worth it, but it will be fun to see what transpires.  
  
***Automotive  
​***  
**Under the Radar: We see AutoNation as a potential undervalued gem.** Americans buy roughly 40 million used cars and 20 million new vehicles each year. AutoNation (AN $42-**$46**-$62) is the largest automotive dealer in the US, with more than 250 dealerships in 16 states. The company brings in over $5 billion year in and year out, and has been profitable as far back as the eye can see. Why, then, with its single-digit p/e ratio, is the company sitting near its 52-week low? Analyst house SunTrust took notice of the company today, initiating coverage on the stock with a "hold" rating and a price target of $48 per share, but the average analyst price target for AN is $53 per share. We believe Michael Jackson, the company's long-tenured CEO, is one of the brightest minds in the industry, and has been called as much by the Automotive Hall of Fame.​ The company's biggest risk lies in the fact that over 60% of sales come from only three states: California, Texas, and Florida, but we could easily make the case for the share price heading back to the mid 50s—a 20% premium from where they are trading now. AN is a $4 billion mid-cap value play.   
  
***Global Strategy: Australasia  
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**No citizens voted, but Australians just woke up to a new leader.** Australia has had five different leaders over the course of the past 11 years. Overnight, it got its sixth. The ruling Liberal Party, which is actually a center-right conservative party, ousted Prime Minister Malcolm Turnbull and put 50-year-old Scott Morrison in his place. Australia's political structure is different than America's: citizens vote for a ruling party which, in turn, selects a party member to lead the country.  Party members were becoming increasingly uncomfortable with Turnbull's left-leaning views, and his decision to enforce Paris Climate Accord rules within the country was the straw that broke the camel's back. It was appearing more and more likely that the ruling Liberal Party would lose ground to the left-leaning Labor Party in next year's election. 76 seats are needed for a majority in the Australian House of Representatives. As of now, the Liberal Party holds precisely 76 seats.   
  
The country's new prime minister had been manager of Tourism Australia, an organization created by Prime Minister John Howard during his 11-year tenure, and is considered a hard-liner—at least compared to Turnbull. He supports greater religious freedom within the country, was against the Paris Climate Accord, and took a tough stance against asylum-seekers as the country's immigration minister. Most recently, Morrison was Australia's treasurer, well respected for his business acumen and fiscal problem-solving abilities. In 2017, he successfully pushed through tax cut legislation for Australia's small- and mid-sized businesses, but lost in his bid to get tax cuts for the country's largest companies. Morrison must now prove that he can keep the infighting to a minimum within the Liberal Party, and lead a successful bid against Labor in 2019.   
  
***Chemicals  
​***  
**Can pot help Scotts Miracle-Gro get its groove back?** This past January we reported that Scotts Miracle-Gro (SMG $73-**$74**-$110) had purchased a hydroponic joint, Hawthorne Gardening Company, in an effort to get its toe in the door of the burgeoning cannabis market. After that pickup failed to help the company's bottom line, SMG shares plunged about 20% and are currently down 30% year-to-date. Now, the company appears ready to double-down on the bet. Hawthorne has teamed up with Flowr Corp, a Canadian pot grower, to build a 50,000-square-foot cannabis research facility in British Colombia. The lab will be used to study all aspects of marijuana growth in an effort to create the right mix of products for the rapidly-expanding industry. It's an interesting proposition: if Scotts is successful in becoming a leader in the growth of cannabis, you can bet it won't be sitting on its 52-week low (which it hit last week) for long. SMG has a market cap of $4 billion (mid-cap core) and a p/e ratio of 23.        
  
***Energy Commodities  
​***  
**Has the Saudi Aramco IPO really been cancelled?** Although the press is making it sound like a new story, we reported on a probable delay in the massive Saudi Aramco IPO this past March. The real issue is the price tag: Saudi Arabia wants to raise $100 million in the IPO of its national oil company, but is only willing to sell 5% of the company to the public. That would value the oil giant at a ridiculous $2 trillion. Keep in mind that Apple just became the first trillion dollar company in the world. While Reuters has been reporting that the Saudis called the IPO off due to challenges raising the capital, energy minister Khalid-al-Falih said the public offering was still a go—just at a time when market conditions are more favorable. That probably means no earlier than late 2019. Keep in mind, however, that the Saudis need the price of oil to remain high to make this work; preferably higher than the current $71 per barrel for Brent Crude. With technology increasing America's ability to pull oil from the ground, a reduced regulatory stance in the US, and the rise of alternative energy, we believe $70 per barrel should be the *high* of the range. Anything above that probably has more to do with market manipulation than the forces of supply and demand.   
  
***Real Estate Management & Development  
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**Amherst looks to raise $1 billion for investment in single-family rental homes.** Amherst Capital Management, a real estate LLC specializing in single-family equity, commercial real estate lending, and mortgaged-backed securities, looks to raise a whopping $1 billion from investors to buy single-family rental homes. The company already owns and manages 20,000 properties through its Main Street Renewal subsidiary. Private equity funds such as the Blackstone Group (BX, a [Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html) holding), have been pouring money into the single-family rental (SFR) space since the housing crisis of 2008/2009. According to [Amherst](https://www.amherstcapital.com/web/amherstcapital-public/market-insights?p_p_id=122_INSTANCE_22RxBTt95Fsi&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-2&p_p_col_pos=1&p_p_col_count=5&p_r_p_564233524_resetCur=true&p_r_p_564233524_categoryId=22629), the total institutional investment in SFR homes hit $33 billion at the end of 2016. The duration of an investment within the new Amherst fund will be at least ten years.    
  
***Life Sciences Tools & Services  
​***  
**Exact Sciences jumps by 30% on Cologuard deal with Pfizer.** Shares of diagnostics and research firm Exact Sciences Corp (EXAS $37-**$65**-$72), maker of the Cologuard cancer screening test (and that cute little talking box from the commercials), surged 30% following the announcement that the company was teaming up with Pfizer (PFE) to promote DNA screening. Under the terms of the three-year deal, Pfizer will co-promote the Cologuard test beginning in the fourth quarter. In return, Exact Sciences will share a portion of the gross profits from the sale of the kits and pay some of the marketing expenses incurred. There are few things that a man over 50 wants to do *less* than get a colonoscopy, which is why this sort of DNA testing will continue to become increasingly popular. Shares of EXAS have been all over the place during the last few months, hitting a high of $71.60 in June, followed by a bottoming-out at $47.85 in early August, and then the current run-up to $65 today.     
  
***Multiline Retail  
​***  
**Target joins other major retailers with its own lights-out quarter.** One year ago, conventional retail wisdom had Amazon (AMZN) cleaning the clock of every major bricks-and-mortar store in America. That narrative has certainly changed. Multiline retailer Target (TGT $54-**$83**-$84) joined the weeklong earnings celebration with its own blowout report on the second quarter. Both traffic and same-store sales at the 1,800 or so Targets around the country grew by 6.5% on aggregate from the same quarter last year—the best metrics in over a decade—and online sales grew 41% over last year. That is right in line with the digital growth we reported from Walmart (WMT) last week. Revenues rose from $16.43 billion in Q2 of 2017 to $17.55 billion last quarter, and earnings rose from $1.22 to $1.47 per share over the same period. CEO Brian Cornell attributed the strong quarter to the company's turnaround plan, and the "strongest consumer environment" he has seen in his career. Target shares were trading up about 6% on the earnings report.    
  
***Construction & Engineering  
​***  
**Penn member Johnson Controls up 4% after Argus upgrade.** Admittedly, $37 billion construction and engineering firm Johnson Controls (JCI $33-**$40**-$43) hasn't done much since we added it to the Penn Global Leaders Club last year. It now appears, however, that the company may be ready to dust off the cobwebs and begin a new stretch of outperformance. Shares rallied about 4% after analyst house Argus Research raised the firm to a "buy," with a $45 per share price target. We see a fair value for the shares closer to the $50 range. Johnson operates in two distinct industry segments: the building technologies unit builds, installs, and services HVAC systems and provides fire and security solutions; the power unit makes vehicle batteries which are sold to both automakers as an OEM (Original Equipment Manufacturer) and aftermarket retailers. We wrote about Johnson Controls in the Penn Wealth Report, [Vol 6, Issue 01](http://pennwealth.uberflip.com/i/958170/9).   
  
***Homes & Durables  
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**Toll Brothers jumps 11% as luxury US home market remains red-hot.** Toll Brothers (TOL $33-**$39**-$53), the largest luxury homebuilder in the US, spiked 11% after the company reported a surge in new orders and a 27% increase in revenues for the third quarter. Sales during the three-month period rose to $1.91 billion for the Pennsylvania-based builder, while net income rose 30%, to $193 million. Despite the recent negative headlines surrounding rising interest rates and tepid buyers, TOL recorded an 18% increase in signed contracts. The company is now on track to build between 8,100 and 8,400 units this year, with the average sales price sitting at $851,900. TOL is nearing a $6 billion market cap and the company has a current p/e of 10.   
  
***Global Strategy: Latin America  
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**Maduro devalues already-worthless currency as Venezuelans flee country.** Inflation in the socialist state of Venezuela is currently chugging along at an annualized rate of 1 million percent. That is no joke and no typo. Talk about putting the Weimar Republic to shame. Now, inept, bumbling socialist leader Nicolas Maduro is taking it to the next level by devaluing the national currency, the bolivar, by 95%. Put another way, before Maduro’s devaluation, it took 285,000 bolivars to buy one US dollar. Post devaluation, it will take six *million* bolivar to buy that same dollar. Of course, this is insane; which is why 2.3 million Venezuelans—in a nation of just 31 million—have fled the country since Maduro took over from his deceased mentor, Hugo Chavez. To assuage his citizens, der comandante is raising the minimum wage from the equivalent of $1 per month to $30 per month. Venezuelan society is literally collapsing before our very eyes. Why, then, has Maduro not been removed? We will discuss that very topic in this coming Sunday's [Penn Wealth Report](https://hub.pennwealth.com/h/c/22473-penn-wealth-publishing).  
  
***Beverages  
​***  
**PepsiCo to buy SodaStream for $3.2 billion.** And the battle of the cola wars continues. Last week we reported that Coca-Cola (KO) was purchasing sports drink phenom BodyArmor—a blow to PepsiCo (PEP $96-**$115**-$123) and its Gatorade brand. Now, the latter is making a big move into the DIY at-home soda market with its purchase of Israeli beverage firm SodaStream (SODA $57-**$143**-$143). If you own one of the wonderful SodaStream machines, you have probably noted in the past that Coke syrups are everywhere, but not Pepsi. After Pepsi's $3.2 billion takeover of the company, expect that to change dramatically. Just one month ago, SODA was trading at $84 per share and had a $2 billion market cap. It now trades at $142.80—a new 52-week high—and has a market cap equal to Pepsi's offer price. Did the company overpay? We don't believe so. This is a growing niche space in the industry, and SodaStream is the hands-down leader. The company, while under Pepsi ownership, will continue to operate as a separate entity.   ​

***Headlines for the Week of 12 Aug — 18 Aug 2018***

***You wouldn't know it by listening to the press, but comrade Putin has some serious troubles on the home front...***



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***Market Pulse  
​***  
**Thursday's market rally was all about Walmart and China.** It has been a rough few weeks for the markets. At best, the indexes have been moving sideways since the last nice three-day rally near the end of July. Thanks to a blowout Walmart earnings report, however, and news that the communist Chinese were heading back to the negotiating table, the indexes got the infusion they have been searching for. The Dow Jones Industrial Average was the big winner on the day, jumping 396 points, or 1.58%. The broader S&P 500 was up 22 points, or 0.79%, while tech stocks continue to struggle as of late—the Nasdaq finished up 32 points, or 0.42%. We remain bullish on the second half of the year, and will use any pullbacks as an opportunity to pick up some of our favorite names at a discount.   
  
***Global Strategy: Russia  
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**You wouldn't know it by listening to the press, but Putin's approval numbers are falling sharply.** Can we at least agree that the mainstream media is myopic (and that is being very generous) in their treatment of certain politicians at home versus certain dictatorial leaders overseas? Take Vladimir Putin. We have read story after story of how popular the Russian leader is within his home country, but is that really true? Yes, for a people who could once brag about Soviet military might, the national pride goes up every time he makes a move like his illegal annexation of Crimea—and so do his poll numbers, but that pride does not put meat on the family table or rubles (which are cheapened almost weekly) in the pockets of workers. In a recent issue of the Penn Wealth Report, we reported on Russia's daunting economic issues and that country's massive over-reliance on oil revenues, along with a growing level of discomfort among his citizens. According to the Levada Analytical Center, Putin's trust rating in the country has dropped from 60% in January to just 48% in June. And the numbers are a lot worse for his lapdogs, like Foreign Minister Sergei Lavrov. Domestic economic troubles are forcing tough moves at home, like raising the retirement age to 65 for men and 60 for women. That may not seem draconian in the Western world, but to someone living in a communist nanny state, it is appalling. Despite Putin's troubles, it is inconceivable that he would be removed from power. However, the domestic turmoil does mean that he will become even more dangerous on the world stage as he tries to deflect any personal criticism and distract his hungry masses.     
  
***Food & Staples Retailing  
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**Retail, the Good: Walmart blows away quarterly expectations, jumps 10%.** Early in Thursday trading, the Dow was up over 300 points; about one-third of that was due to one company--[Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Walmart (WMT $78-**$100**-$110). The $294 billion retailer (which started the day out as a $265 billion retailer) released its Q2 earnings report Thursday morning, and the numbers were remarkable from top to bottom. Revenues came in at $128 billion versus $122 billion in the same quarter of 2017, while earnings per share grew from $0.96 to $1.29 over the same period. Same-store sales in the US grew 4.5%, or about double what was expected, and online sales at the company grew a whopping 40%. With skilled digital mastermind Marc Lore (former CEO of jet.com, which WMT purchased a few years ago) at the e-commerce helm, brands are now rushing to get their goods into the Walmart online platform. As soon as the report was announced, WMT shares spiked by over 10%. CEO Doug McMillon has been the driving force behind the Walmart renaissance, and we expect the company to see continued growth moving forward.   
  
***Multiline Retail  
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**Retail, the Bad: Dillard's reports a loss of $2.9 million in the second quarter.** The headlines coming from two Arkansas-based retailers elicited very different responses from Wall Street. While Walmart (WMT) was blowing away the quarter, Little Rock-based multiline retailer Dillard's (DDS $50-**$70**-$99) was reporting a $2.9 million loss, or -$0.10 per share, during Q2. Granted, that was not as bad as the $0.41 per share loss expected, but it was still bad enough to drive the stock down over 15%. Net sales did climb a bit from Q2 of 2017, rising from $1.43 billion to $1.47 billion, and there were no giant red flags in the report, so why the drop? Dillard's had been on a tear for much of the year, well outperforming the overall market, so the drop was probably just due to simple profit-taking to protect gains. There is a growing angst among investors with respect to traditional, multiline retailers such as Dillard's, Macy's (M), and JC Penney (JCP). Many retail analysts question their ability to continue to grow in the age of Amazon (AMZN). These companies' respective success with their omnichannel marketing (think online) has been spotty, at best. Those which are unable to attract customers, en masse, to their online sites will continue to flounder. And Dillard's has yet to prove it has omnichannel figured out.   
  
***Multiline Retail  
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**Retail, the Ugly: JC Penney loses one-quarter of its value in one trading session.** A serious case of déjà vu writing that headline—it seems as if we have been here before. What would the board of directors at storied retailer JC Penney (JCP $2-**$2**-$5) give to go back in time prior to the hiring of bumbling (our opinion) CEO Ron Johnson? Incredibly, just over a decade ago, JCP was an $18 billion large-cap. Today it sits, lonely and abandoned, as a $572 million micro-cap, on the heels of a 25% one-day drop in the price of its shares. After Ron Johnson, the company needed a Hail Mary pass in the form of a great CEO; instead, they got Marvin Ellison. At least Ellison had the class to say he let shareholders down (as he was heading out the door to take over Lowe's). During Thursday's earnings call, the company admitted to having alienated its core group of middle-aged customers in an attempt to chase millennial shoppers. We could have predicted the outcome of that futile effort. Management at the company had predicted a full-year forecast of between -$0.07 and +$0.13 per share. On Thursday, they revised that down to somewhere between an $0.80 and $1 per share *loss*. That is a staggering difference. So, the 116-year-old company now sits without a CEO, loaded with debt, and with a share price it hasn't seen since the Great Depression. That *is* depressing.      
  
***Beverages  
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**Constellation Brands makes huge bet on cannabis.** Last October, we made note of our favorite booze company, Constellation Brands (STZ $196-**$202**-$237), showing interest in the cannabis arena. Now, the company is putting its money where its mouth is with a whopping $4 billion investment in Canadian cannabis firm Canopy Growth (CGC $7-**$30**-$37). Immediately following the announcement, Canopy spiked 25%, while the maker of Corona, Robert Mondavi, and Svedka, fell 9%. To recognize the scope of the investment, Canopy had a market cap of just $5 billion before the deal was announced. Why on earth would a world-class booze company pay a 51% premium for a Smiths Falls, Canada pot joint? STZ' outspoken CEO, Rob Sands, believes the sky is the limit with respect to the global marijuana business. While you can expect Constellation to come out with some pot-infused nonalcoholic drinks, the company will also share in the profits from Canopy's edibles, vaping, and smoking lines of business. That company's CEO, Bruce Linton, is especially excited about the German, Latin American, and African markets over the next twelve months. He also wants Canopy to offer medical cannabis across five continents within that timeframe. After the drop, we would love to take a stake in STZ, but no matter how we calculate the numbers we still come to a fair value of right around where the stock is trading after the drop. We believe it would be, however, a safer bet for anyone wanting to take part in the mushrooming cannabis business than trying to identify the winning pot stock in which to invest.   
  
***Multiline Retail  
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**Macy's falls 14% despite a second-quarter beat.** It wasn't a bad earnings report. Revenues came in at $5.57 billion versus $5.55 billion in Q2 of 2017, and same-store sales picked up by 0.5% versus an expected loss. Furthermore, Macy's (M $17-**$37**-$42) raised its full-year expected earnings from $3.95 to $4.15 per share and reported double-digit online sales growth for the quarter. Why, then, did M shares drop 14% within minutes Q2's results? The only reasonable answer is simple profit taking. Macy's share price had run up around 60% YTD, and the 14% drop just takes shares back to where they were trading a month ago. What's our fair value estimate on the stock? Around $35 per share.   
  
***Food & Staples Retailing  
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**Kroger's management team continues to impress; makes move into Chinese online market.** We have held up iconic food retailer Kroger (KR $20-**$30**-$31) as the one glittering jewel in an industry under attack by rising food costs, shrinking margins, and online retailer Amazon (AMZN). Now, in a direct shot back at Amazon, the 135-year-old grocer is teaming up with Chinese e-commerce behemoth Alibaba (BABA) to sell its products digitally to the Asian market. Kroger will have a digital storefront on Alibaba's new platform for international brands, known as Tmall Global, selling products under the grocer's Simple Truth brand. Recently, Kroger acquired British online supermarket Ocado, and meal kit startup Home Chef. CEO Rodney McMullen continues to prove himself as one of the most visionary leaders in the industry.  At its current price of $30 per share, KR has a tiny p/e ratio of 7 and a market cap of $26 billion.   
  
***Global Strategy: South Asia  
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**If Turkey is causing the problems, why did India's rupee just hit an all-time low against the US Dollar?** If you want to trade your Indian rupee in for a US dollar, you will now be given just $0.15. That is the lowest the rupee has ever traded against the greenback, but why is it falling? It has little to do with India and nearly everything to do with Turkey and the emerging markets (EM) crisis. While the Reserve Bank of India made moves on Monday to help stabilize the national currency, spooked investors are seeking safer havens in US dollars and other "safe" currencies. To be sure, a weaker currency helps a country's export business, but it also decimates consumers in that country—they must now pay more as their currency is worth less. Consumers in India are really getting pounded at the pumps. Nearly 40% of all oil consumed in the country comes in the form of diesel, and taxes account for over 50% of the price-per-liter of fuel. Add the weakened rupee to the mix and you have an explosive situation of voter anger across the country. So far, Prime Minister Narendra Modi has been able to weather the storm, but the gas tax situation will need to be addressed soon. Especially if the rupee continues to be worth less and less at the pumps.    
  
***Textiles, Apparel, & Luxury Goods  
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**Tapestry jumps double-digits after stronger-than-expected Kate Spade sales.** The company formerly known as Coach, Tapestry (TPR $39-**$54**-$56), was trading up nearly 14% on Tuesday following reports of a strong showing in its fiscal 4th quarter, which ended 30 June. The luxury goods retailer, which owns the Coach, Kate Spade, and Stuart Weitzman brands, reported a 31% spike in net sales over the same quarter in 2017, and a 36% jump in GAAP earnings per share. The company's Kate Spade line was, in good measure, responsible for these impressive numbers, as revenue from the division spiked 31% following the death of the founder. Interestingly, Tapestry has been tapering off its discount promotions which management considers detrimental to the brand's luxury status. At the very least, reducing these flash sales did not negatively impact overall sales at the firm. Tapestry's 50 p/e isn't out of line for the industry, but we would look at players with better valuations, such as Michael Kors (KORS) or Lululemon (LULU), for placing new money in this space.     
  
***Beverages  
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**Coca-Cola made a great tactical decision by investing in BodyArmor.** In the recent past, we've generally liked the decisions coming from the Pepsi (PEP) C-suites over those made by Coca-Cola's (KO $41-**$46**-$49) board. Having said that, the latter just made a bold move into the sports drink arena we strongly applaud. In an effort to take on Pepsi's category killer, Gatorade, Coke just invested in BodyArmor with the ultimate goal of taking full ownership of the startup. While Coke already owns Gatorade competitor Powerade, BodyArmor is being marketed as a healthier alternative to other sports drinks. More importantly, athletes are flocking to the new drink. BodyArmor uses a base of coconut water (though we couldn't really taste it), doesn't use artificial colors or high-fructose corn syrup, and provides about twice the electrolytes as Gatorade using potassium instead of sodium. The energy sports drink segment generates nearly $10 billion in sales annually, with Gatorade controlling about 60% of that amount. With plenty of room for future growth, and with Americans becoming more cognizant of what they put in their bodies, this was a brilliant move by Coca-Cola.     
  
***Specialty Retail  
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**Penn member Home Depot has a blowout quarter, jumps in pre-trading.** [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Home Depot (HD $147-**$198**-$208), one of our favorite places to frequent, just announced spectacular Q2 results. The company blew away expectations from top to bottom, and management raised their guidance for the full calendar year. Revenue for the quarter hit $30.46 billion—a new record for the company—and earnings spiked from $2.25 per share a year ago to $3.05 per share this past quarter. The sales number represents an 8.4% spike year-on-year, with both the number of transactions and the size of transactions going up. Home-owning Americans see the values of their properties rising consistently, and they want to maintain the nest egg in which they live. So, why has Home Depot become a $224 billion home improvement juggernaut while Lowes (LOW) sits at a $79 billion market cap? One company has a stellar management team and the other, stubbornly, does not. We see the manifestation of the two management styles clearly visible each time we walk into the brands' respective stores.    
  
***Specialty Retail  
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**Bucking the modern trend, Casper goes from online retailer to brick & mortar shop.** With Amazon (AMZN) in every retailer's rear window, shops have been scrambling—and paying high dollar—to build their brand's online shopping presence into a viable force. Now, online mattress seller Casper is taking a page out of Amazon's strategy (think Whole Foods and the company's physical bookstore expansion) with plans to open 200 brick & mortar stores around the country. A lot of copycats have entered the space since Casper's "mattress-in-a-box" concept took off, but they remain the benchmark online mattress seller, with revenues growing by 50% from the first six months of 2017 to the first half of 2018. It's a costly gamble, fraught with huge overhead and greedy landlords, but this should allow Casper to capture an enormous swath of consumers who want to try a bed out before handing over the big bucks—despite the firm's 100-day trial period. What is really amazing here is the mature nature of this specialty retail space. With big players like Serta, Simmons, and Tempur Sealy dominating for over a generation, conventional wisdom would dissuade startups in the field. Instead, a company comes along and turns conventional wisdom on its head. A great lesson for entrepreneurs facing pushback on their own brilliant ideas. As for Casper, it is only a matter of time before they go public.   
  
***Textiles, Apparel, & Luxury Goods  
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**VF Corp to spin off its jeans business to focus on activewear, outerwear.** You might not be familiar with apparel manufacturer VF Corp (VFC, $61-**$92**-$97), but you would certainly recognize their brands. The company, founded in 1899 and based out of Greensboro, North Carolina, owns such iconic names as: North Face, JanSport, Timberland, Vans, Wrangler, Lee, and Dickies. Now, in a strategic decision to focus more on the company's fast-growing outerwear and activewear lines, VF will spin off its 50-year-old denim business. The new company will manage the Wrangler, Lee, and Rustler brands, in addition to the 75 or so VF Outlet stores around the United States. VF also announced it would be moving its headquarters from Greensboro to the Denver metro area within the next year. With these new strategic moves, should you make a move into VF Corp? We don't think so; we place a fair value on the company at around $75-$80 per share.   
  
***Fertilizers & Ag Chemicals  
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**Bayer falls double-digits in Germany as Roundup/cancer link story grows.** When it's all said and done, $93 billion German healthcare and chemical conglomerate Bayer (American ADR symbol BAYZF $105-**$107**-$140) may be sorry the US Department of Justice approved the company's $66 billion purchase of Monsanto this past April. With that purchase, Bayer adopted the litany of legal problems surrounding the purported cancer risks surrounding Monsanto's main weed killer, Roundup. During Monday's trading on the German exchange, Bayer fell double digits after a California jury ruled that Roundup posed a substantial danger to consumers, ordering the company to pony up $289.2 million in punitive damages. Whether that amount is actually ever paid or not, it is the opening salvo in what will be an avalanche of lawsuits against the product, which contains the chemical at the center of the storm: glyphosate. Monsanto brought glyphosate to the market in 1974 under the Roundup name.

***Headlines for the Week of 05 Aug — 11 Aug 2018***

***The voters gave Erdogan another five years in Turkey, he gave them an economic nightmare...***



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***Health Care Information & Services  
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**In repudiation to Icahn, ISS voices support for Cigna's purchase of Express Scripts.** Venezuela, by its own actions, doesn't have much going for it right now, but it still owns one valuable asset: Citgo Petroleum. Actually, Citgo is a subsidiary of Venezuela's state-controlled oil company, PdVSA, but a US federal judge just took the first step in wresting control of the company away from the draconian government. Judge Leonard Stark issued a ruling in favor of defunct Canadian miner Crystallex International, which had argued that the Venezuelan government reneged on a mining rights deal, and wanted to seize Citgo assets in the US. The judge's decision opens the door for a potential wave of other filings by unpaid creditors to squeeze money out of the downstream energy interest. Looks like Maduro can say goodbye to one of his last global money-making vehicles.  ​Venezuela and its state-controlled companies have over $60 billion of outstanding unsecured bonds which the government has stopped paying interest on, and over $150 billion in total debt outstanding worldwide.   
  
***Global Strategy: Latin America  
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**US federal judge authorizes seizure of Citgo assets.** Venezuela, by its own actions, doesn't have much going for it right now, but it still owns one valuable asset: Citgo Petroleum. Actually, Citgo is a subsidiary of Venezuela's state-controlled oil company, PdVSA, but a US federal judge just took the first step in wresting control of the company away from the draconian government. Judge Leonard Stark issued a ruling in favor of defunct Canadian miner Crystallex International, which had argued that the Venezuelan government reneged on a mining rights deal, and wanted to seize Citgo assets in the US. The judge's decision opens the door for a potential wave of other filings by unpaid creditors to squeeze money out of the downstream energy interest. Looks like Maduro can say goodbye to one of his last global money-making vehicles.  ​Venezuela and its state-controlled companies have over $60 billion of outstanding unsecured bonds which the government has stopped paying interest on, and over $150 billion in total debt outstanding worldwide.   
  
***Food & Staples Retailing  
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**The Albertsons deal to buy Rite Aid is dead, which means the grocer will remain private.** Both privately-held grocer Albertsons and publicly-traded drugstore Rite Aid (RAD $$1-**$1**-$3) are in a really tough situation. Both have been getting their clocks cleaned by the competition in their respective industries, and this plan to merge, which we wrote skeptically about this past January, was somewhat of Hail Mary pass.  Now, that deal is dead. The cause of death was a failure of Rite Aid to get enough support among shareholders, who probably made the right decision in their rejection. This merger would have valued the joint company at around $24 billion; right now, RAD has a market cap of just $1.6 billion (the company dropped 11% on news of the terminated deal). RAD had a market cap of $9 billion in January of 2017. With the aggressive but sound strategic moves of Walgreens (WBA) and CVS (CVS) over the past several years, what can Rite Aid possibly do at this point to spring back to life? Same for Albertsons. When Kroger (KR) was getting hammered following the Amazon (AMZN)/Whole Foods deal, we were busy picking the chain up for our [Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html). Why? The adroit management team at Kroger, led by CEO Rodney McMullen, had a solid plan to answer the online retailer's encroachment into the industry. Albertsons and Rite Aid are two blah companies in two hyper-competitive industries. How in the world would the merger of two also-rans create a dynamic new synergy? It was, in our opinion, simply a way for Albertsons to tap into the flow of money within the capital markets. Would-be investors should thank Rite Aid shareholders.   
  
***Global Strategy: Trade  
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**They just couldn't help themselves: Chinese bragging and propaganda tactics have hurt them in trade talks with the US.** Apparently, the only people who don't know that communist regimes always use hyperbole to inflate their strengths are the citizens of the particular country in question, and the dolts in the US media. For years, journalists have been telling us that China will soon eclipse the US as the world's top economic power. Yet, as of right now, the US has a nearly $20 trillion economy, while China's sits at $12 trillion. Whatever the government-controlled media in China spew, US journalists lap up like thirsty animals. Here's the problem with this strategy: eventually, the facts simply crack the template (remember Khruschev's famous "we will bury you!" screech at the UN?). China has taken a firm stance against the US on the issue of trade, promising "tit-for-tat" tariffs. As we have pointed out, this is a physical impossibility due to the imbalance of trade. Since US negotiators haven't blinked, the truth is coming home to roost, as evidenced by plummeting Chinese stocks and economic troubles on the mainland. Now, several high-level officials in Beijing are in hot water for "forcing" the US to take a tough stance to counter China's 2025 world domination initiative. They should have remembered Deng Xioping's advice to keep a low profile while they slowly boil the frog that is the US. One also has to wonder how much Xi Jinping has been believing the false narratives generated by the US press corps. Unwittingly, these journalists may have helped subvert the Chinese position. Wouldn't that be sweet irony.   
  
***Internet Software & Services  
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**Online dating site provider Match jumps 18% on unexpectedly strong earnings.** The Match Group (MTCH $18-**$46**-$49), parent of such dating sites as Match.com, Tinder, OkCupid, and PlentyOfFish, just had a blowout quarter, and investors rewarded the company with an 18% spike in the share price. Revenue jumped an impressive 36% from the same quarter last year, and net income rose from $51.43 million in Q2 of 2017 to $132.5 million this past quarter—a 158% jump. What was the catalyst? The company's Tinder unit notched an 81% subscription growth rate and a 136% revenue spike. Tinder now has nearly 3.8 million paying subscribers, creating an enormous annuitized income stream for the company. Operating revenue for Match has consistently grown year after year since the company went public. Unlike most other players in the space, the company has a decent p/e ratio of just 26.   
  
***Global Strategy  
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**In rift with Saudi Arabia, Justin Trudeau shows his political inexperience.** Although we actually kind of like Canadian Prime Minister Justin Trudeau, he continues to show—like his twin brother in France—a dangerous political naivety. The most recent example of this actually led to the country's ambassador to The Kingdom of Saudi Arabia getting the boot. The rift began when a spokeswoman for Canada's foreign minister, Chrystia Freeland, complained about the recent arrest of female political rights activists in the Kingdom. What makes this somewhat ironic is the fact that Saudi's Crown Prince Mohammed bin Salman has undertaken a massive reform program in the country, to include allowing women to drive for the first time, and the loosening of a number of religious restrictions. Why would the Canadian government choose this point in time to begin complaining? Canada certainly did not expect the immediate backlash, which included the expulsion of Ambassador Dennis Horak, the de-funding of Saudi's student exchange program with Canada, and a selling of Canadian assets held by the Kingdom. The next retaliatory steps are expected to include investments made between the two nations.  There had to be a better way for the Canadian government to express its concern over the arrest of Saudi activists. When you live in a bubble, however, you tend to believe you are always right, even after that bubble pops. Just ask the arrogant EU leaders in Brussels.   
  
***Global Fixed Income  
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**Investors fleeing the "Bond King's" fund like rats from a sinking ship.** A few months ago we reported on "Bond King" Bill Gross' disastrous week for his Janus Henderson Global Unconstrained Bond Fund (JUCIX). It seems investors got the message as well. The fund, which is now down just two bps shy of 7% for the year, cannot seem to staunch the bleeding from investors yanking their money out. As of right now, the global bond fund has roughly $1.325 billion in assets under management. That represents a $188.5 million net outflow in one month, and a $583.83 million net outflow—roughly half of AUM—year-to-date. In our opinion, Bill Gross was (and probably still is) one of the cockiest fund managers out there. We feel bad for the investors, but this kind of hubris nearly always ends with a thud.   
  
***Textiles, Apparel, & Luxury Goods  
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**With its 50% drop in value and 10% dividend yield, is Pandora a good buy?** First, let's be clear: we are talking about Pandora (PANDY $13-**$13**-$29) the Danish jewelry company, not the American music streaming service. It has been a really rough year for the luxury retailer, with shares of PANDY falling from $29.16 in April to $13.25 as of today. The latest blow came when management at the $6 billion firm (formerly $12B) drastically cut the company's full year outlook and slashed its critical [operating profit margin](https://www.penneconomics.com/financial-terms--concepts.html) metric. So, with a 10% dividend yield, a p/e ratio of 9, and annual profits back as far as the eye can see, is the company a screaming buy? Few analysts are willing to go out on the limb after being burned several times over the past year, but based on future cash flow projections, a brave investor with money they are willing to lose might just want to take the gamble.  
  
***Real Estate Services  
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**Zillow falls 14% after poor results, lower guidance.** We have often railed against companies which issue dual class shares of their stock, labelling this as an act of financial engineering (as opposed to sound strategic planning) and a way for privileged shareholders to control voting rights. Real estate services firm Zillow (Z $38-**$50**-$66) is no exception. The "Z" symbol denotes the Class C non-voting shares, while the symbol "ZG" denotes the voting-class A shares. So, even before the company's latest earnings report, they were behind the eight ball in our minds. As for the Q2 earnings report on the company, which hasn't turned a profit since 2012, revenues came in below expectations and full-year guidance was lowered. Revenue was up 22% from the same quarter last year (to $325M), and Zillow's new house-flipping business is intriguing, but with a negative earnings-per-share and a dual class scheme, we would stay away. The stock fell about 14% after the quarterly results were released.    
  
***Automotive  
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**Musk considers taking Tesla private in a deal valued at $420 per share, shorts getting crushed.** After years of being berated by analysts who aren't worthy of carrying his water, Elon Musk is vocally (on Twitter) considering something that forced shares of Tesla (TSLA $245-**$367**-$390) to be halted on Monday: taking the company private. Actually, based on subsequent tweets, it sounds like he has made up his mind. The $420 per share price mentioned equates to an $82 billion market cap; the market cap of the company before Musk's tweet was around $58 billion. It was also reported that Saudi Arabia's sovereign wealth fund has a $2B to $3B investment in the firm, fueling speculation that it would go private. In fact, Musk tweeted that "Funding (is) secured." Let's suppose all of the investors who berated and shorted TSLA are actually correct (they aren't). Does it really matter to them at this point—they are getting their shorts handed to them right now. Before trading halted on Monday, short sellers had already lost about $884 million in value in a matter of hours.   
  
***Global Strategy: Middle East  
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**The economic crisis in Turkey is about to hit critical mass; blame the voters.** This past June, voters in Turkey gave President Recep Erdogan another five-year term at the helm—and an incredible new level of power over nearly all matters in the country. That may have been welcome news for Erdogan, but it was disastrous news for the country's economic stability. How bad is it? Right now, the US 10-year Treasury is yielding just shy of 3%. To take the risk of buying a 10-year Turkish government bond, you will be rewarded with a 21% rate; that is, assuming you don't lose your principal before maturity. The Turkish currency, the lira, is now worth around $0.18 on the dollar, and the country's debt load just reached an astronomical 54% of GDP. What is the CBRT (Central Bank of the Republic of Turkey) doing about it? Absolutely nothing. Rates need to rise quickly to tamp down runaway inflation in the country, but Erdogan is not allowing the "independent" CBRT to act because he wants to keep the economy growing with ultra-low rates. What is the next step for the country? Send a delegation to the International Monetary Fund (IMF) in Washington DC and ask for a bailout. In a separate issue, but one which overshadows the country's desperate effort to get a cash infusion, the US has placed new sanctions on two Turkish government officials over the ongoing detention of American pastor Andrew Brunson, held on espionage charges. Turkey may be a NATO member, but Erdogan's power grab, the economic nightmare forming, and the detention of Brunson should make it abundantly clear that they are not a trustworthy US ally. Unfortunately, it appears that this unstable country may be given the latest US technology in the form of the F-35 Joint Strike Fighter. If congress succeeds in halting the sale, Turkey has threatened to buy Russian Su-57s instead. The NATO member just bought Russia's s-400 missile defense system in a direct rebuke to Washington. This situation will get a lot worse before it gets better, and it is likely to be a long, drawn out conflict.

***Headlines for the Week of 29 Jul — 05 Aug 2018***

***Tomorrow's news today...***

***Cybersecurity  
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**Bank of America/Merrill Lynch upgrades AT&T.** We have considered [Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html) member AT&T (T $30-**$32**-$40) a screaming buy for about two months now—though we have owned it for much longer than that. For some reason, despite its victory over the government in the Time Warner case, investors have shied away from this profit-generating cash cow (6.44% current dividend yield). Now, the company is garnering some interest again. T shares popped about 2% after a Bank of America/Merrill Lynch analyst upgraded the stock from "neutral" to "buy." While analyst David Barden kept his price target for the company at $37 per share, he sees a lower corporate tax rate, an annuitized income stream (from its subscription model), and higher projected revenues for 2018 all playing a role in the shares going higher. With a company of this caliber carrying a 6.29 p/e ratio and a dividend yield north of 6, it appears to be a value investors dream.    
  
***Telecom Services  
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**Bank of America/Merrill Lynch upgrades AT&T.** We have considered [Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html) member AT&T (T $30-**$32**-$40) a screaming buy for about two months now—though we have owned it for much longer than that. For some reason, despite its victory over the government in the Time Warner case, investors have shied away from this profit-generating cash cow (6.44% current dividend yield). Now, the company is garnering some interest again. T shares popped about 2% after a Bank of America/Merrill Lynch analyst upgraded the stock from "neutral" to "buy." While analyst David Barden kept his price target for the company at $37 per share, he sees a lower corporate tax rate, an annuitized income stream (from its subscription model), and higher projected revenues for 2018 all playing a role in the shares going higher. With a company of this caliber carrying a 6.29 p/e ratio and a dividend yield north of 6, it appears to be a value investors dream.  ​  
  
***Global Strategy: East & Southeast Asia  
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**US moves to counter China's 21st-century Silk Road program.** China's Belt and Road Initiative (BRI), announced a few years ago, is designed to be the 21st-century version of the famed Silk Road—the ancient network of trade routes which connected East and West. BRI's trillion-dollar goal is to create a series of overlapping "belts" and shipping "roads" to give China dominance throughout an enormous region, spanning some 60 countries. Now, the US is looking to disrupt and counter the Chinese initiative. The Trump administration first reframed the strategy for the region by changing the term "Asia-Pacific" to "Indo-Pacific," focusing more on our allies in the region instead of simply accepting the former's China-centric connotation. Now, Secretary of State Mike Pompeo is set to announce a string of economic initiatives for the region focusing on energy, infrastructure, and the digital economy. Pompeo will present the new initiatives at a [US Chamber of Commerce forum](https://www.uschamber.com/event/indo-pacific-business-forum) this week. ​

***Headlines for the Week of 22—28 Jul 2018***

***Who has more to lose from a trade war? The numbers tell the story...***



*Photo Courtesy: Penn Wealth/YCharts*

***Internet Software & Services  
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**Going in the opposite direction from Google and Amazon, Twitter joins Facebook in the dumpster.** Yesterday it was the shockingly-bad earnings report from Facebook (FB $149-**$178**-$219), sending that company's shares down 20%. Today, it was Twitter's (TWTR $16-**$35**-$48) turn, and the numbers were almost as bad. As soon as the earnings report hit the wires, Twitter's shares plummeted 17%, recovering just a few percentage points at the open, then falling back down to session lows. Monthly active users (MAU) of the social media platform dropped by *one million* in Q2, bringing the total number down to 335 million. Furthermore, the company expects that number to drop again in Q3, on the back of new GDPR rules in Europe and an intensified effort to clean up both phony accounts and abusive users. As for the financials over the course of the quarter, revenue did increase by 24%, to $710 million, and net income went from a $116.49 million loss in Q2 of 2017 to a gain of $100 million. What's the current p/e of the company, you ask? Try 4,294. Hey, at least they have one. Interestingly, check out our last post on Twitter on the [Internet Software & Services](https://www.penneconomics.com/internet-software--services.html) page and see where we saw the fair value range for TWTR, then compare to where it is trading now.   
  
***Global Strategy: Europe  
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**In typical, arrogant fashion, the EU publicly rebuffs Theresa May's Brexit offer.** The hard date for Brexit is quickly approaching: 29 Mar 2019. The soft date for negotiations to be completed between the UK and the EU is nearly here: October of this year. While we have criticized Prime Minister May in the past, arguing that she is back-peddling on Brexit plans, we have seen her take a tougher stance in recent weeks. A few days ago, she took the lead in negotiations with the EU and directly presented her plan for the split. Not only was that plan rejected, it was done so in a way which seemed designed to humiliate May. The big sticking point right now is the collection of VAT (value-added taxes) and duty fees on goods entering the UK. May has said that her country would be willing to collect those fees for the EU. EU negotiator Michel Barnier flatly rejected those terms. Complicating the matter is the fact that Irish voters chose to remain in the EU, so there must be—with no deal in place—a "hard" border between Northern Ireland, which remains part of Britain, and the rest of the country. The EU offered an alternative (remain in the EU's customs union) which, in essence, negates the Brexit vote. If May took that offer, she would be ousted by her Conservative Party. Which, by the way, is precisely what her Labour Party opponents, all of whom are aligned with the EU, would love to see happen. It is now looking more and more like a hard Brexit is imminent, which will complicate trade and a host of other issues between the two sides. It would foster, however, increased trade between the US and Great Britain. Strap in for an exciting nine months.   
  
***Internet Software & Services  
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**Facebook loses one-quarter of its value in a matter of minutes.** We were watching as the numbers rolled in, and it was a bloodbath. Within minutes of Facebook's (FB $149-**$173**-$219) after-hours train wreck that was the second-quarter conference call, shares were plummeting 25%—the largest ever drop for the $630 billion social media giant. What went wrong? Just about everything. For the first quarter in the company's history, the active daily users (ADU) number stagnated in North America and actually fell in Europe. Of course, this comes on the heels of the data privacy scandal which has plagued the firm, and the onerous new GDPR rules rolled out in Europe. The nail in the coffin of the conference call came when CFO David Wehner made it clear that revenue growth would continue to decline over the last two quarter of 2018, and that bottom line profits would be negatively affected—perhaps for the next few years—by the massive expenditures the company will make to enhance data security. While the 25% drop in the share price didn't quite follow through to the morning open, does the fall make the company look attractive for investors? We don't believe so. We would place fair value of the firm at around $200/share, and that small gain wouldn't be worth the current risk an investor would have to accept.  
  
***Personal Finance  
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**Over half of Americans have less than $1,000 in savings.** Do you get depressed when you look at your investment and savings accounts? This may make you feel a bit better. According to a [GoBankingRates.com survey](https://www.gobankingrates.com/saving-money/savings-advice/half-americans-less-savings-2017/), nearly 60% of Americans have less than $1,000 in savings, and only 25% have over $10,000 they could get their hands on. Drilling down a bit deeper into the low-end numbers, 39% of Americans have nothing saved for retirement. No doubt, a big factor in this has been the proliferation of consumer credit in the country. When an emergency strikes, but there is nothing in the savings account and all of that would-be discretionary income is needed to pay the credit card bills, where do Americans turn? To the credit cards that caused the problem in the first place. And while the Baby Boomer generation placed better on the survey, all of the other generations—basically aged 60 on down—are relatively in the same dire situation. Last year, the aggregate credit card debt of Americans surpassed $1 trillion. A few years earlier, sadly, the aggregate student loan debt of Americans surpassed $1 trillion.    
  
***Market Pulse  
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**What the mainstream media is not telling you about the tariffs.** If we never see the words "tit-for-tat" plastered on the business channel screens again, that would be great. But the term is pulled directly from the false narratives playbook, so that won't happen. If we are to believe Larry Kudlow (see China currency story below), Xi Jinping believes the US will blink first on the topic of trade. He may be a leader for life, but the double-digit year-to-date drop in the Shanghai Composite Index has to hurt. The facts: we are allowed to export roughly $200 billion in goods to China each year, and hundreds of millions of dollars worth of US intellectual property is stolen each year by the Chinese. The Chinese export roughly $500 billion of goods to the US each year with very little friction. Journalists aren't known for their mathematical acumen, but even they must understand that the number 500 is larger than the number 200. Therefore, they must be trying to deceive. But why? Stay tuned—this is going to be a fun topic to watch unfold this year. As for the EU, one of the most arrogant Europeans around (and that is saying a lot), European Commission President Jean-Claude Juncker, is coming to Washington tomorrow. Which, by the way, is exactly why President Trump tweeted out "tariffs are the greatest!" We should get some indication as to how ready Europe is to strike a deal. i.e. is the pain threshold high enough yet?  
  
[***Financial Terms & Concepts***](https://www.penneconomics.com/financial-terms--concepts.html) ***​***  
**Three profitability definitions added to Financial Terms & Concepts page.** I have been reviewing and analyzing stocks on a full-time basis for over two decades, and I thought it would be helpful to slowly start building a library of concepts and definitions based on some of the industry research performed over the course of any given day. These are brief, simple, and straightforward, which typically include examples. Today, I added three profitability metrics I look at when analyzing equities: gross profit margin, net profit margin, and operating profit margin. Feel free to take a look by clicking the topic link above this paragraph.   
  
***Pharmaceuticals  
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**Eli Lilly jumps after earnings, decision to spinoff animal health unit; we don't buy the spin.** There were a couple of catalysts for drugmaker Eli Lilly's (LLY $74-**$90**-$90) spike in early trading on Tuesday: a strong second-quarter earnings report and the decision to spin off the company's animal health unit, Elanco. On the earnings front, the $97 billion health care company posted a 9% increase in revenues (to $6.36B in Q2) and earned $1.50 per share. After special charges recorded in the quarter, however, LLY actually lost $260 million, or $0.25 per share. As for the spinoff of Elanco Animal Health, they are only going to offer 20% or less to the public, and they will divest themselves of the rest of it through a "tax-efficient transaction." This has the stench of financial engineering all over it. Need another reason to not buy LLY? How about the stock's 82 p/e.   
  
***Internet Software & Services  
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**What $5 billion fine? Alphabet rocks the second quarter.** Despite the $5 billion shakedown by the thugs in the European Union, internet giant Alphabet (GOOG $903-**$1,244**-$1,205) blew past its 52-week high in after-hours trading following what could only be described as simply stellar quarterly results. Revenue for the *quarter* came in at $26.24 billion, and the company's ad business grew 24% from Q2 of 2017. Just how big was the quarter? Due to the outrageous EU fine (which it will fight), the company offered investors a look at two different profit numbers: one ex-fine and one taking it into account. Even after adjusting for the $5 billion, Alphabet generated $3.2 billion in net income during the three-month period. That is crazy-good. It looks like the company is still in the running to become the world's first $1 trillion enterprise—after the 5% price pop it has a market cap of nearly $900 billion.  
  
***Leisure Equipment & Products  
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**Hasbro shrugs off Toys R Us bankruptcy, jumps double digits.** Toymakers Hasbro (HAS $79-**$106**-$112) and Mattel (MAT $12-**$17**-$21) continue to travel down divergent paths, and the former is the one to follow. After taking a hit on the Toys R Us bankruptcy news, the company's shares clawed—and then spiked—their way back to their February highs. Monday's 13% gain for Hasbro came on the heels of a very strong second quarter. The company brought in $904 million in revenue for the quarter, and earned $0.48 per share versus expectations for $0.33 per share. Of interest, the company said it continues to work to yank more of its production out of China and to other areas of the world. Right now, 70% of Hasbro's products are made in China. From a financial standpoint, management said it believes it can increase the company's [gross profit margin](https://www.penneconomics.com/financial-terms--concepts.html) from its current 54% back up to above 60%. That would be quite a feat, as it hasn't achieved that level in over a decade. For comparison, Mattel's gross profit margin is sitting at 31%. (Gross profit margin, or simply gross margin, is figured by subtracting a company's costs from its overall revenues, then dividing that number by revenues.)  
  
***Energy Equipment & Services  
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**With oil prices back up to $70/barrel, why is Halliburton falling?** Halliburton (HAL $38-**$41**-$58) is the world's second-largest oilfield services provider. Crude is sitting near $70 per barrel, up from $40 per barrel last year. So why did shares of the company plummet 8% in early trading this week? It has everything to do with takeaway capacity: the extent to which oil can be removed from a region by pipeline, rail, and truck. For HAL, Q2 numbers looked solid: revenue rose 24% from the same quarter last year (to $6.15B), and net income rose to $511 million (from $28M in Q2 of 2017, though the company took a $262M charge in that quarter). But CEO Jeff Miller warned that the restricted takeaway capacity in the company's lucrative Marcellus shale and Permian basins would have a big impact on profits going forward. There is simply not enough pipeline capacity to remove the oil from the area. Additionally, chief competitor Schlumberger (SLB $61-**$66**-$80) is moving additional resources into the Permian region. Who do we like in the industry? Small-cap ($3B market cap) player McDermott International (MDR $16-**$17**-$27), which designs, builds, and installs fixed and floating rate facilities, pipelines, and subsea systems for oil and gas companies. MDR has a p/e ratio of 9 and a free cash flow of $50 million TTM.   
  
***Currency Trading/FOREX  
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**Yes, China is weakening its currency, but there are several factors at play.** The Trump Administration has leveled a charge that the Chinese government has been devaluing its currency, the yuan, in an effort to prop up its global exports in the face of real and proposed US sanctions. The weaker a country's currency gets, the cheaper its products become for other countries to import. While there is no doubt that the government has been purposefully devaluing the yuan, which is now worth about $0.15 on the dollar, a slowing of China's economy has also played a factor. Couple that with the roaring US economy and the Fed raising interest rates, and the yuan's slide makes more sense. As for China, a weak currency is a double-edged sword. A weak currency can help bring about inflation, and it hurts the buying power of a nation's citizens. It also presents a less attractive environment for investors, pushing them toward countries with stronger currencies e.g. away from the yuan and toward the US dollar. If Larry Kudlow is right, Xi Jinping has no interest in negotiating a more-balanced trade deal with the US. If he is relying on the forces of a weaker yuan to come to his rescue, he might just be surprised at how quickly those forces can be decimated—"leader for life" moniker or not.   
  
***East & Southeast Asia  
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**Li'l Kim still thinks he can get away with subterfuge in North Korea, and his economy is paying the price.** Based on the fact that pot-bellied dictator Kim Jong-un came to the negotiating table, US-led worldwide sanctions against North Korea *have* been working. Now, sadly, it appears that Kim thinks he can talk nice, continue to build up his arsenal, and fool the world into lifting the sanctions. China will certainly help him with the rouse, but the US isn't biting. New intelligence reports show that Li'l Kim continues to work on his nuclear arsenal, and that China is still illegally shipping energy to North Korea via ship-to-ship (STS) transfers. Japan's Ministry of Foreign Affairs has confirmed "probable" detection of such transfers in the East China Sea, a few hundred miles off the coast of Shanghai. Meanwhile, North Korea's economy continues to get battered from the sanctions. Gross domestic product (GDP) dropped by 3.5% in 2017 (the weakest in 20 years), and the Bank of Korea (BOK) said that the the full effect of sanctions on the country won't show up until we see the 2018 figures. Per capita income in North Korea is sitting at about $1,300 USD per person, which is roughly 5% of the $28,000 USD per capita income in South Korea.

***Headlines for the Week of 15—21 Jul 2018***

***Boeing lands new Air Force One contract, new paint scheme and all...***



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***Medical Equipment & Supplies  
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**Medical device maker Danaher surges on second-quarter earnings, spinoff plans.** Danaher Corp. (DHR $79-**$103**-$106) is a $72 billion, US-based manufacturer of healthcare-focused instruments and supplies. The company's four main business units are: Life Sciences, Diagnostics, Dental, and Environmental & Applied Solutions. Two news releases helped the company surge around 5% on Thursday—a good earnings report and a planned spinoff. For the second quarter, DHR saw its earnings rise 20%, to $638 million, on the back of a 6% jump in core revenue growth. During the earnings call, the company also announced plans to spin off its dental business into a separately-traded entity. Major dental equipment maker Dentsply (XRAY) shrugged off the news, with those shares rising around 3% on the day. The medical devices industry continues to be our favorite play in the health care sector.   
  
***Global Trade  
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**One of our favorite global strategists sees a "cease fire" in trade war before mid-terms.** Any time we see David Kelly—J.P. Morgan's chief global strategist—on one of the business networks, we unmute the television and play close attention. He is one of those straight-shooters who never lets politics shape his comments (unlike way too many "experts"), but simply lays out the facts in a cogent manner. We have noted that, in hindsight, he is almost alway right in his analysis. Getting grilled on trade matters while on CNBC, Kelly made the case for a cease-fire in the trade war this summer or fall. He argues that Republicans have no desire going into the mid-term elections with this issue on voters' minds, or hitting domestic companies' pocketbooks. He also sees 5% real GDP growth coming out of the second quarter, and a 27% overall spike in corporate earnings in Q3 over the same quarter last year. Both of these metrics, he argues, would be hurt by ongoing trade disputes. China, meanwhile, responded to Chief Economic Advisor Larry Kudlow's claim during a CNBC *Delivering Alpha* interview that Xi Jinping has absolutely no interest in "following through" on his promises to help curb intellectual property theft. (We completely agree—he doesn't.) A Chinese government spokesman claimed the comments "distorted the facts and made bogus accusations (which were) shocking and beyond imagination." A bit melodramatic. Sadly, we expect a great percentage of journalists would side with the hyperbolic comments of the Chinese official.     
  
***Media & Entertainment  
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**Global ad agencies getting hammered as technology disrupts industry.** Ah, the glory days of Don Draper and Madison Avenue. Back when you had to be an enormous, established firm with a huge advertising budget to get noticed. Thankfully, technology has so disrupted the industry that the formerly-arrogant big boys are now scrambling for profits. WPP (WPP), the world's largest ad holding company based on revenues, has fallen 24% over the past year. The French ad giant Publicis Groupe (PUBGY) saw its shares falling as much as 9% on Thursday after missing on quarterly revenue expectations. Madison Avenue ad agency Omnicom Group (OMC) fell 10% on Tuesday after missing sales estimates. The companies with the largest ad budgets, such as Procter & Gamble, Inbev (Budweiser), and American Express, are suddenly rethinking how to best market in the digital age, and the big ad agencies are rapidly losing ground to their nimble new competitors. Of course, this is wonderful news for smaller companies—both those who advertise and those who deploy those ad dollars via digital media. Technology has given small companies filled with creative minds unprecedented leverage to market their goods and services to the world. Pardon us if we don't shed any tears for the fallen ad giants of New York and Paris.    
  
***Road & Rail  
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**Full steam ahead for CSX, and another good sign for the US economy.** US railroad CSX (CSX $48-**$68**-$68) rose about 6% and punched through its 52-week high after reporting a big jump in quarterly profits. The Jacksonville-based hauler, which controls 21,000 miles of track—primarily in the eastern United States, ships coal products, chemicals, intermodal containers, and a diverse mix of other products. Net income rose a quite impressive 72% (to $877 million) from the same quarter last year. Revenues rose 6% year-over-year, to $3.1 billion. Higher freight rates on increased demand, along with a cost-cutting initiative, led to the big profit spike. Recall that we gave a lot of grief to CSX in the [Road & Rail](https://www.penneconomics.com/road--rail.html) industry page due to the hiring of the $300 million man, Hunter Harrison. Now that Mr. Harrison has assumed room temperature, we hope that CSX can continue riding the tailwinds of the second quarter.    
  
***Global Trade  
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**For the second time in two years, the EU hits Google with massive fine.** It helps to put large numbers in perspective. For example, most people cannot really wrap their minds around the $21.2 trillion US national debt figure; it is simply too big. So, with this new case of the European Union versus Google (GOOG $903-**$1,197**-$1,205), let's try this visual: the EU just fined Google an amount roughly equal to the market cap of Goodyear Tire. $5 billion. The press is trying to mitigate the ridiculous fine amount by pointing out that Google is an $842 billion company, so they could easily absorb the cost. That is ludicrous, and Google must fight the EU to the bitter end. At the heart of the EU's antitrust case is the Android mobile operating system and its dominance in the space. Chronic troublemaker Margrethe Vestager, the European competition commissioner, claims that Google forces smartphone makers to pre-install apps such as search engine Google Chrome on their devices before they are sold because these apps come in a bundle with the company's app store, Play. The company has countered that this in no way stops users from choosing other search engines. It should be noted that Apple (AAPL) does the same thing—it pre-installs a number of its apps on each iPhone produced. Google will vigorously fight the astronomical fine, but the EU has given the company only 90 days to come up with the dough—or face a daily penalty of 5% of average daily worldwide revenue! Extortion to the largest degree. Europe is such a beautiful continent; it is so bad that they have embraced, unwittingly, a socialist government structure which answers to no one. Perhaps that is why Britons chose to leave the Union. Last year, by the way, Vestager hit Google with a $2.7 billion fine which the company is still appealing.   
  
***Semiconductors & Equipment  
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**Texas Instruments gets a beat, while the CEO gets the boot.** What is going on in the semiconductor C-suites? First it was Intel's (INTC) visionary CEO Brian Krzanich getting ousted for sexual misconduct, now it is Texas Instruments (TXN $80-**$115**-$121) CEO Brian Crutcher getting the boot for violating that company's "code of conduct." Crutcher has been CEO for—get ready—one month. There should be very little fallout from this move, as longtime CEO (and current chairman and president) Rich Templeton will move back into his old role. On a bright note for the company, the Q2 earnings report showed a 9% growth in revenues (to $4.02B) and an earnings beat of $1.40 per share versus the $1.32 expected. Despite the good quarter and the muted response to the CEO ouster, we believe TXN is only worth around $100 per share. The Dallas-based company has a market cap of $112 billion and generates 95% of its revenues from chips (the other 5% comes from its iconic calculators).   
  
***Aerospace & Defense  
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**Pentagon awards new Air Force One contract to Boeing.** [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Boeing (BA $209-**$357**-$374) announced that it has been awarded a contract by the Department of Defense to build the fleet of two new [Air Force One 747-8 aircraft](http://www.boeing.com/defense/air-force-one/index.page), replacing the current two 747-200s which have been in service for nearly three decades. The new aircraft, which won't go into operation until the end of 2024, will cost $3.9 billion to build, and will sport a new red, white, and blue color scheme. President Kennedy selected the current color scheme, which has adorned the fleet since the early 1960s. As for Boeing, we applaud the recent decision to take the lead on a joint venture with Brazilian aircraft maker Embraer (ERJ), and we place a fair value of $400/share on the company.  
  
***Monetary Policy  
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**Powell gives masterful performance on Capitol Hill, avoids efforts to drag him into politics.** The blowhard politicians sitting atop their Mount Olympus grandstand did everything but tell Fed Chairman Jerome Powell exactly what to say. With their typical "well everyone knows" and "you have to admit" comments, they pushed and prodded him to enter the political fray with his economic outlook, but he didn't bite. What he *did* say was that the strong US economy and stable inflation should keep the Fed on its current track of regular rate hikes. If the politicians didn't get Powell to say what they wanted to hear, their friends in the press took over, writing things that Powell simply did not say. I watched the entire grilling, and I read what was written in the Wall Street Journal and Bloomberg. There were discrepancies. As to why, we will leave that up to readers to decide motive. One thing is certain, Powell has a clearer and more direct speaking style than any Fed Chair we recall, and that is going back to Paul Volcker in the '70s. Look for at least one more rate hike in 2018, with an outside possibility of another (which would bring the total this year to either three or four).   
  
***Health Care Information & Services  
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**UnitedHealth posts a quarterly beat and raises full-year guidance.** Last fall we reported that the nation's largest health insurer, $242 billion UnitedHealth Group (UNH $184-**$257**-$259), handily beat expectations for the quarter and raised its guidance. Today, UNH handily beat expectations for the quarter and raised its guidance—again. Revenue rose 12% during Q2, to $56.09 billion, and net earnings rose 28%, to $3.14 per share. The most impressive metric in the report revolves around the number of new members UnitedHealth signed up in the quarter: 2.2 million Americans. The medical care ratio for UNH (the percentage of premiums paid back out for medical services) improved from 82.2% last year to 81.9% this past quarter. On the heels of these strong numbers, the company once again raised its full-year 2018 guidance. What is the company's fair value? We would place it somewhere between $275 and $300 per share.     
  
***Road & Rail  
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**Trucker JB Hunt's revenues and profits surged in the second quarter.** Earlier this year, we mentioned that relatively small ($13B) trucking firm JB Hunt (JBHT $89-**$121**-$132) was one of our two favorite players in the industry. The intermodal carrier just announced earnings for Q2, and they were off the charts. A surge in freight demand, thanks to the strong US economy, led to a 24% spike in Hunt's revenue (to $2.14B) and a remarkable 55% jump in Q2 earnings (to $151.7M) over the same quarter in 2017. With increased demand and tight capacity, integrated shipping companies have been in the driver's seat, as rates per loaded mile have gone up double digits from last year. The other company we liked in the space, by the way, was Werner Trucking (WERN $29-**$36**-$44).    
  
***Media & Entertainment  
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**Say what?! Media darling Netflix actually missed a quarter.** Shares of the company we love to hate (well, the CEO anyway), Netflix (NFLX $164-**$347**-$423), dropped about 14% after hours following a reported quarterly miss on both revenues and subscriber growth. Analysts had been expecting revenues of $3.94 billion for Q2; instead, they got $3.91 billion. The big miss came in projections for US subscriber growth. Instead of the 1.2 million "new subscribers" number expected, the street got just 670,000. Outside of the US, the company signed up 4.47 million new members versus the 5 million expected. Management also lowered its expectations for third-quarter growth. Yes, these are still huge numbers, but remember that NFLX has had negative free cash flow every quarter since Q3 of 2014, and the stock carries a sky-high p/e ratio of 269.    
  
***Metals & Mining  
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**Is floundering Arconic about to go private? Potential interest pushes stock up by double digits.** We have written scathingly about Alcoa (AA) since the company spun off its downstream aluminum products division into a new company, Arconic (ARNC $16-**$19**-$31), and fired longtime CEO Klaus Kleinfeld (he technically resigned, but for all intents and purposes he was canned). Both of these events, we believe, severely damaged this formerly-great US company. So, what can make a floundering company spike double digits in one morning? A buyout rumor. Private equity firm Apollo Global Management is sitting on over $24 billion in cash it has raised from investors, and they are hungry for an acquisition. The purchase of $9 billion Arconic would be a relatively easy task for the buyout company. In the right hands, it can certainly return to profitability. What would really be funny to see is Apollo buy the firm, and then reinstate Klaus Kleinfeld as CEO. Sadly, that won't happen; Klaus is now working for Saudi Arabia's transformative leader, Crown Prince Mohammed bin Salman, and leading the effort to build an advanced new city (NEOM) along the Red Sea.  ​

***Headlines for the Week of 08—14 Jul 2018***

***Demographics & Lifestyle  
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**Is that really your business? WeWork tells employees it will only reimburse non-meat meals.**   
  
We love freedom. An employee's beliefs, habits, mannerisms, and lifestyle are really none of the employer's business, so long as those factors do not negatively impact the company or involve breaking the law. That is why we cringe when we hear stories like this.  
  
Office space provider WeWork (think Regus to get an idea of what they do) has released a memo to employees stating that the company will no longer reimburse for meals while on business time if those meals contained any meats. The company also banned all meat products from being served at its dining facilities or its functions. In the memo, the company's co-founder, Miguel McKelvey, told employees that avoiding meat helps "[reduce their environmental impact](https://www.theguardian.com/environment/2018/jul/13/wework-meat-events-expense-ban)." "Even more than switching to a hybrid car," he tells his minions. What if this were a meat-packing plant, and the CEO released a memo stating that steak dinners would be reimbursed but don't bother turning in the receipt for that flounder you ordered.  
  
Sure, the company doesn't blatantly come out and say that "meat eaters need not apply" for employment. That would be hard discrimination and an easy lawsuit. Instead, they prefer the soft discrimination of workplace intimidation, like telling you your carbon footprint is killing the planet. This is insane. WeWork is not a company at which the principal stakeholders simply hold certain beliefs; it is a company which says that YOU, if you wish to remain an employee, should also hold those beliefs, or you may not feel "comfortable" in the workplace. They are a political movement posing as a holier-than-thou business enterprise. Discrimination is a two-way street. We wonder what level of personal discrimination would be tolerated if an employee didn't share the views of management? Dirty looks? Sneers? Agitation until they leave the company?  
  
How ironic that so many of the people who believe they are the "enlightened ones" are so willing to take us back to the Dark Ages. As for the comments in this article, they are—thank God—still protected under the First Amendment. Another "archaic" gem these "enlightened ones" would love to do away with.   
  
***Wireless Telecom  
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**As AT&T gets downgrade by Raymond James, we see a screaming buy.** Despite already handily beating the government's case against a merger in court, the US Department of Justice is going to appeal AT&T's (T $31-**$32**-$40) victory in its plan to buy Time Warner. This announcement led to Raymond James analyst Frank Louthan's downgrade—to market perform—of the $236 billion telecom services provider. It's not that he thinks the government will win this time around, he just doesn't like the black cloud hanging over the deal. AT&T, which we hold in the [Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html), is now sitting near a 52-week low of $32 per share, and provides investors a whopping 6.2% dividend yield. We see the downgrade as misguided as the government's appeal. We also believe T has a fair value of around $40 per share—a 25% upside from here—and we still wouldn't sell it when it hits that mark.   
  
***Commercial Banks  
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**Bank earnings are finally rolling in, and so far so good.** Perhaps more than any other industry, Wall Street always eagerly awaits the quarterly results of the big banks to gauge just how well the US economy is doing; after all, these financial institutions provide the lubricant which greases that economy. To that end, Jamie Dimon's JPMorgan Chase (JPM $88-**$107**-$119) just set the stage for a market rally. The $364 billion bank, and America's biggest lender, just notched record-setting second quarter profits. Revenue increased 6% from the same quarter last year, to $28 billion, and net income surged a whopping 18% year over year. The firm reported increased trading activity, both in equities and at the fixed income desk, and commercial lending was robust over the three-month period. We have been predicting a strong second half for the markets, and this is a good signpost along the way.   
  
***Textiles, Apparel, & Luxury Goods  
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**L Brands drops like a rock on soft Victoria's Secret sales.** 81-year-old Les Wexner has been the CEO of L Brands (LB $31-**$32**-$63) since 1963, the year he founded the firm. That also makes him the current CEO of Victoria's Secret, The Limited, Bath & Body Works, PINK, and a number of other lines. We don't believe age—either young or older—should have any impact on someone's ability to lead a company, as there are brilliant minds and dunderheads of all ages in the C-Suite. Having said that, it may be time for Les to step down. Around a year ago, we reported that LB dropped double-digits on declining sales, which management blamed on lower mall traffic. After this past Christmas season, LB dropped from $63/share to $50/share on, you guessed it, "declining mall traffic." On Thursday, the company had another double-digit loss after the company reported disappointing sales during the all-important Victoria's Secret Semi-Annual Sale. That is not good news. We lambasted the company last year for exiting the swim and apparel categories (that could have helped June's numbers), and we believe management continues to make a number of missteps. With Amazon (AMZN) now in this category, brick and mortar specialty shops cannot afford too many errant decisions. Yes, the company is now trading at just an 11 multiple, and investors could get nearly a 7% dividend yield if they jumped in now, but we are not willing to take the risk with the lack of a sound strategic turnaround plan. We are rooting for them, however; it would be a dark day if those Victoria's Secret shops were no longer festooning the local malls.     
  
***Airlines  
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**Recent Penn addition Delta Airlines jumps on solid earnings, profitability.** We picked up Delta Airlines (DAL 45-**$51**-$61) in the [Penn Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html) last week after management lobbed an off-the-cuff warning about fuel prices hurting margins this year (Delta does not hedge their fuel). This well-run airline was already undervalued, and that comment forced it down to an easy buy point. Today, as we expected, the company beat on nearly all of its metrics for the quarter. Revenues surged 10% year over year (to $12 billion) and earnings per share rose to $1.77 (against company forecasts for $1.65-$1.75/share). Yes, higher fuel costs certainly hurt the bottom line, but not hedging is a two-way street: if oil does drop, DAL should be the first airline to benefit. For the record, Delta paid $2.17/gallon for jet fuel last quarter, as opposed to $1.66/gallon in the same quarter of 2017. We are up about 5% in our position since adding last week.  
  
**A Disney film just notched an incredible record.** We waited fourteen years for the sequel, but boy did it ever pay off big for Walt Disney (DIS $96-**$108**-$113). Pixar's*Incredibles 2* just became the first animated film in history to gross over $500 million at the North American box office. Forget animated, the film will also become just the 12th movie overall to reach that revenue mark. What movie did *Incredibles 2* surpass on its way to the record? Disney's *Finding Dory*, which grossed $486 million in the US and Canada. Walt Disney is one of the 40 companies in the Penn Global Leaders Club.   
  
**Tariff headlines give us a great opportunity to buy as others sell.** Most great buying opportunities are either subtle—missed by investors until they are looking at them in the rear-view mirror—or surrounded by fear. We now have an incredible buying opportunity, we believe, which holds both of these attributes. The Trump Administration announced a massive new round of tariffs which, if implemented, would affect $200 billion worth of goods currently imported from China, running the gamut from tuna to furniture. In the pre-market, Dow futures were off over 200 points on the announcement. These new tariffs would not go into effect for two months, and we believe odds are good they will never go into effect. Not because Trump is bluffing (he has proven his willingness to pull the trigger), but because China simply cannot live up to their bluster. The Chinese media (controlled by the Chinese Communist government) can talk tough until the cows come home, but tough talk belies the dire predicament their economy will be facing if these tariffs go through. The US mainstream media, in lockstep and with full predictability, immediately decried these new tariffs. The same media which, if it had a gun to its head, could not negotiate its way out of wet paper bag. Slowly but surely, Americans are becoming more suspect of the headlines, but they still caused this 200-point selloff before the open. Always have a wish-list of stocks ready to go when false narratives drag down the markets in the midst of bull runs. We do. *(Let's hold our feet to the fire and see, six months down the road, how accurate we were: current indexes right now: Dow: 24,777; S&P: 2,782; Nasdaq: 7,735.)*  
  
**Why is drug giant Pfizer splitting itself into three parts, and what does that mean for investors?** Back in the late 1990s, drugmaker Pfizer (PFE $32-**$37**-$39) was our favorite investment in the pharmaceuticals industry. Then it languished...for over a decade. Right or wrong, we blamed management for the malaise, and the apparent absence of a clear value proposition or viable strategic plan going forward. Now, Scottish-born CEO Ian Read is leading a bold new initiative for Pfizer: splitting the company up into three distinct units. The most exciting leg of the triad, in our opinion, is the Innovative Medicines unit, which will include a hospital-focused business segment. The Established Medicines unit will focus on off-patent drugs (Viagra, Lipitor, etc.) and generics. Finally, the Consumer Healthcare unit will manage all of the company's over-the-counter products. We haven't been this positive on Pfizer since the deal to acquire Allergan (AGN) was announced back in 2015; a deal that was subsequently shot down by the Obama Treasury Department in a political move to demonize tax inversions. We believe Pfizer is worth $47 per share—a 25% jump from where shares are trading today.  
  
**Israel aims to become fourth nation to land a craft on the moon, with SpaceX's help.** Only one nation in history, of course, has ever landed humans on a body outside of earth. While everyone knows that (except the lunatic deniers), fewer know that three nations have actually made successful soft landings on the lunar surface: the United States, the former Soviet Union, and China. Israel plans on joining that stratospherically-exclusive club early in 2019 with the help of SpaceX. Musk's closely-held company will launch the Israeli-built SpaceIL craft in December of this year aboard a Falcon 9 rocket, with a landing on the lunar surface planned for February, 2019. The first major action the autonomous vehicle will make upon landing will be to plant an Israeli flag on the surface of the moon. A new golden age of space travel, with private companies leading the charge, is truly headed our way. While Cape Canaveral will be utilized as the launch site, and the Israeli government has pledged to fund 10% of the project, private companies have spearheaded and funded the lion's share of the enterprise.  
  
**PepsiCo beats estimates on back of strong Frito-Lay sales.** For all the talk of consumers moving en masse to healthier snacks, it turned out to be robust sales of Cheetos, Doritos, and Tostitos that helped beverage and food maker PepsiCo (PEP $96-**$108**-$123) top Q2 expectations. Revenue grew from $15.71 billion in Q2 of 2017 to $16.09 billion this past quarter, though net income drop from $2.12 billion to $1.82 billion over the same time frame on increased advertising and commodity costs (Pepsi owns Quaker, which has been impacted by higher grain prices, for example). While higher sales of Frito-Lay snacks helped the company beat its top-line number, the company's new Bubly sparkling water and "G Zero" zero calorie Gatorade lines also padded the numbers. G Zero hit grocery shelves across America in June. We see the fair value of PEP at $125 per share—about 16% higher than its current share price.   
  
**Theresa May: a weak leader looking for a way to circumvent the Brexit vote.** First Brexit Secretary David Davis resigned over the deal. Then went his number two at the department, Steve Baker. Then came Foreign Secretary Boris Johnson's letter of resignation (actually, Prime Minister Theresa May announced his departure before he had even finished the letter). What had all of these pro-Brexit government officials so angered that they felt they must resign? The Gordian knot, the deal with the devil May agreed to in an effort to appease the anti-Brexit forces at the EU. Theresa May never wanted to split from the EU and, in our humble opinion, she disdains the British voters who foisted it upon her. So, she and the erudite buffoons in Brussels look to share a "common rulebook" (they must still approve the deal) which keeps much of the alliance between the UK and EU intact. She calls it a "soft Brexit;" we call it a capitulation and a slap in the face of the voters. What did Boris Johnson say about May's selling of the plan to the citizenry? It is akin to "polishing a turd." As for EU president and all around worm Donald Tusk, here's what he tweeted after the resignations: "Politicians come and go but the problems they have created for people remain. I can only regret that the idea of #Brexit has  not left with Davis and Johnson. But...who knows." He thinks he can roll the UK, and with May in power he may be right. The British people should demand a no-confidence vote immediately.  
  
**Saudi Arabia looks to buy a number of advanced Boeing 777X widebody jets.** American relations with the Kingdom of Saudi Arabia have, quite arguably, not been this friendly in decades. That relationship may bear fruit for American aircraft maker (and Penn Global Leader company) Boeing (BA $202-**$335**-$374), as the Kingdom is reportedly looking to purchase a number of Boeing 777X aircraft. Saudia, Saudi's state-owned airline, would buy the jets, which have a list price of around $400 million per aircraft. Somewhat ironically, Saudi Arabia hailed the Trump decision to pull out of the Iranian nuclear accord; a decision that probably nixed Boeing's sale of 777s to IranAir. ​Sales of the 777X typically go up when oil prices are high, as the jet's advanced design give it unprecedented fuel efficiency.

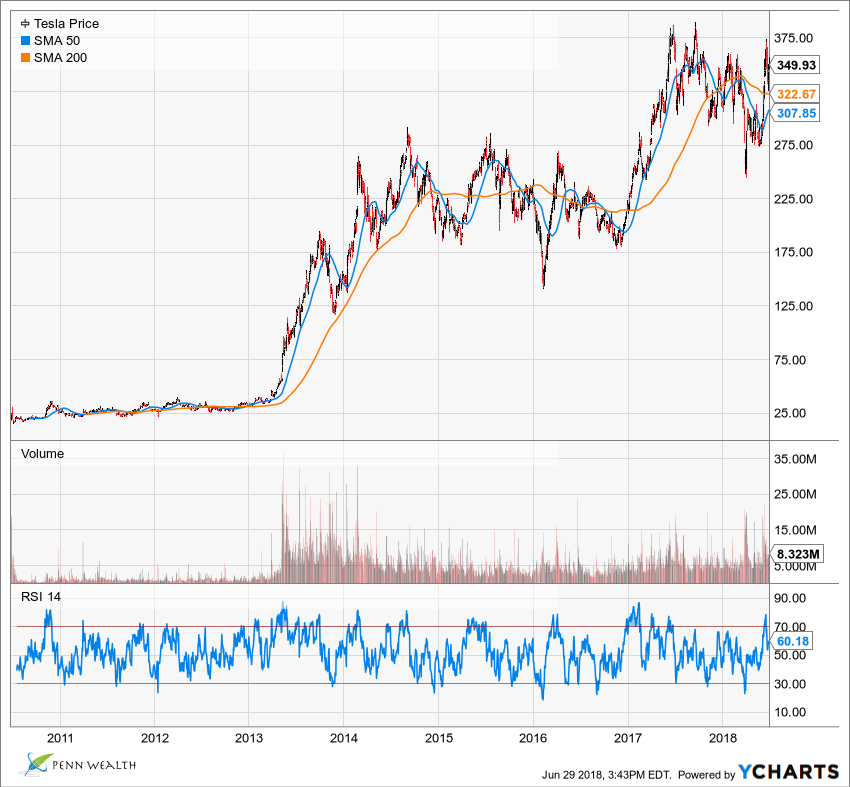
***Headlines for the Week of 01—07 Jul 2018***

***Soybean exports help shrink trade deficit...***

**US trade deficit narrowed in May, thanks in no small part to US soybean exports.** For all the talk of tariffs, the business of exporting soybeans from the US is booming. So much so, in fact, that global sales of the crop helped push the US trade deficit in May down to its lowest point in nearly two years. While China is threatening to look to Brazil for their soybean demand, there are only so many acres of the crop planted in any given year. In fact, China's increase of Brazilian soybeans only forced more countries to buy from US farms. According to the US Department of Agriculture, nearly every importer of US soybeans around the world, sans China, bought more this year than last. That includes—wait for it—Brazil. Our South American neighbor is poised to import as much as one million metric tons from the US this year.   
  
**Penn holding Biogen spikes on positive Alzheimer's drug trial.** Penn [New Frontier Fund](https://www.pennwealthreport.com/the-penn-portfolios.html) holding Biogen (BIIB $249-**$344**-$371) spiked around 17% on Friday's open after a Phase II trial of the company's BAN2401 drug showed a significant slowing in the progression rate of Alzheimer's in patients involved in the study. The antibody works by attaching itself to the amyloid plaques believed to cause the disease, and then reducing their amount. Another BIIB Alzheimer's drug will enter Phase III trials in 2020. Despite the run-up in share price, the biotech still has a p/e ratio of just 21. Last year, Biogen earned $2.5 billion of net income on $12 billion in sales.   
  
**Dow went from strongly negative to flat pre-hours on strong jobs report.** The Dow was sitting down close to triple-digits during the pre-trading hours on Friday, with investors focused on tariffs and trade concerns. Then the jobs number hit, and the pre-open losses vanished. Economists had predicted 195,000 new jobs for June; instead, the number came in at 213,000. While the unemployment rate did tick up twenty basis points, to 4%, that is due to the participation rate rising—more Americans re-entered the workforce. Perhaps the best news for investors, in a warped way, was the softer-than-expected wage growth figure of 2.7% year-over-year. Wage growth is a key metric the Fed uses to determine how quickly it will raise interest rates. As for trade worries, we continue to believe that agreements will be made before a real impact is felt. Back to the jobs report: education/health services led the charge, with 54,000 new jobs created, while manufacturing came in second, with 36,000 new positions.   
  
**David Einhorn's Greenlight Capital is floundering—and losing assets.** One of the most useful habits an investor can develop is the study of the strategies and tactics of major hedge fund managers—both the ones they like and the ones they despise. While these individuals are typically reclusive, holding information close to their vest, securities laws and talkative clients almost always force a certain amount of useful disclosure. Take Greenlight Capital's founder David Einhorn, for example. When we think of the 49-year-old Einhorn, two images come to mind: seeing him seated at the World Series of Poker, and his famous shorting of Lehman Brothers stock in 2007 as he lambasted the company's "dubious" accounting practices. Einhorn is a deep value investor, searching out companies with squeaky-clean balance sheets and low multiples. Unfortunately for Greenlight, high-multiple growth companies have been strongly outperforming their undervalued cousins. The Wall Street Journal, along with a number of other news outlets, have been talking with Greenlight investors to get a sense of what is happening at the fund. While markets are flat year-to-date, Greenlight is apparently off nearly 19% thus far in 2018, losing almost 8% in June alone. The precise figures are unknown, but the fund has reportedly dropped from around $12 billion in assets under management in 2014 to under $6 billion today. That 50% drop reflects both investment losses and clients pulling their money from the fund. One of Greenlight's biggest holdings is General Motors (down 4% ytd), and one of its biggest shorts has been Netflix (NFLX, up 107% ytd). Bold moves, but unfortunately the wrong ones.      
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**Boeing and Embraer join forces to battle the Airbus/Bombardier alliance.** Earlier this year we outlined the alliance between Europe's Airbus (EADSY) and Canada's Bombardier; a joint venture which posed a direct threat to Boeing's (BA $201-**$334**-$374) business strategy and was somewhat a slap in the face, as Bombardier is a Canadian company. Now, Boeing is fighting back. The $194 billion US aerospace giant finalized plans for a joint venture with Embraer (ERJ), Brazil's $5 billion aircraft maker which we sold shortly after the merger rumors made the price spike double digits. Under the terms of the strategic partnership, Boeing will hold 80% ownership and have operational control, while the remaining 20% stake will be owned by Embraer shareholders. This is an intriguing global story within the aerospace industry, and between the two alliances, we like Boeing's move over Airbus's. We outlined Embraer's strong growth trajectory last year in the *Penn Wealth Report*; clients and members can access the story by signing in  [here](http://pennwealth.uberflip.com/i/883893/13).        
  
**Is Dell really going public...again?** You may want to crack a beer before trying to follow this story line. First they were private...then public...then private...now public again? C'mon Michael Dell, make up your mind. Actually, it is not that cut-and-dry this time around for Dell. Anytime you hear the term "tracking stock," think financial engineering, think complex, think investor screwed, think lawyers making a lot of money. At least that has been our professional experience with these creatures (yes, we remember WorldCom's MCI tracking stock). In essence, it amounts to "how much can we get out of investors and how little control can we give them?" Anyway, back to Dell. The company went private in 2013 because (our opinion) Michael Dell was tired of DELL getting hammered after each bad earnings report. As a private entity, Dell bought EMC which, in turn, happened to own most of another company called VMWare (VMW). To fund the EMC purchase, Dell threw some cash in the pot along with a tracking stock called "Dell-VMWare Tracking Stock" (DVMT). Now, to avoid a messy and costly new IPO, Dell will pay nearly $22 billion to buy back shares tied to its interest in DVMT. According to Dell, this would value his company at somewhere between $60 billion and $70 billion (it was valued at $25 billion when Dell and private equity firm Silver Lake took it private in 2013). Now that is some *serious* financial engineering! Here's a concept: make a PC that actually works and that people want to buy (ours quit after a year).   
  
**Financial Terms & Concepts: The Relative Strength Index (RSI).** When you are looking at a technical graph of a stock's share price, you will often notice a pane at the bottom labeled "RSI" or RSI 14." Within the pane you will see a line charting the price of the shares, a vertical/y-axis value between 1 and 100, and two horizontal lines at the 30 and 70 values. This is the relative strength index (RSI), a momentum-driven technical indicator which portrays when a stock might be oversold (undervalued) or overbought (overvalued). Relative strength measures the average gain of up periods during a specified (typically 14 day) time period divided by the average loss of down periods during that timeframe. In theory, a positive momentum which drives the RSI above the 70 line may mean the stock has been overbought and is due to revert to the mean (a trend reversal). Likewise, negative trading momentum which drives a stock's RS below the 30 mark may mean it has been oversold and is due to reverse upward. While RSI shouldn't be the sole buy or sell indicator on a position, it can be a great tool to support or dissuade a decision.   
  
**Tesla hits its target of 5,000 Model 3 sedans produced in one week.** Electric carmaker Tesla (TSLA $245-**$363**-$390) hit an enormous milestone this past week: 5,000 Model 3 vehicles were produced in one, seven-day period. Investors applauded the feat, sending TSLA shares up 6% within the opening few minutes of the trading day. CEO Elon Musk tweeted out, "I think we just became a real car company" shortly after the goal was reached, but now the company must prove it can sustain that rate of production on one vehicle line. There is another concern in play: Tesla is on the cusp of selling its 200,000th electric vehicle; when that mark is reached, the federal tax credit of up to $7,500 per vehicle will begin to dissipate. It will be interesting to see how the loss of that credit impacts sales. Of course, a lot of that has to do with the price of gas at the pump, as EV sales rise when gas prices are elevated, and vice versa. With the spike in share price at the start of the trading week, Tesla now has a market cap of $61 billion, compared to $55 billion for General Motors (GM) and $44 billion for Ford (F).

***Headlines for the Week of 24—30 Jun 2018***

***LNG cargo ship docked in the port...***



*Courtesy: Penn Wealth/YCharts*

**Tesla celebrates its eighth birthday on the exchange.** Love him or hate him (and most investors do choose sides), one thing is certain: had you invested in Elon Musk's Tesla (TSLA $245-**$345**-$390) at its IPO exactly eight years ago today, you would have made a pretty penny. Sure, there was an initial three-year period in which you probably would have questioned your decision, and the company has just recently posted its first quarterly profit, but the ride has been wild. Is there a lesson in the eight-year chart of Tesla? For us, it is this: buy SpaceX when it goes public. The aerospace company already has plenty of government contracts in-hand, and several proven vehicles in the lineup.  
  
**All of a sudden, inflation is at the Fed's target.** One of the key metrics used by the Federal Reserve with respect to monetary policy is the rate of inflation, ex-food and energy costs (these are too volatile to get an accurate reading of the overall trend). For years, the Fed has held an official target rate for inflation at 2%; and for (six) years, it has been below that level. No longer. The aggregate basket of goods used to gauge inflation rose 2% between May of 2017 and last month—the first time that mark has been reached since 2012. If there is anything the Fed is more freakish about than a recession, it is runaway inflation. Members of the Board of Governors often make the claim that once inflation begins to get out of hand, it is extremely hard to tame. What does this mean? An almost certain continued and steady series of 25 basis point rate hikes. Great news for bond hunters; not-so-great news for anyone waiting to buy that new home. Don't expect to see rates tickling zero again for a long, long time. On the flip-side, Germany's economy remains so anemic that the yield on the 10-year bund recently hit 0.305%.   
  
**Nike pounds earnings, spikes 7% after release.** Nike (NKE $50-**$76**-$76), our favorite athletic footwear and apparel maker, just announced its FY 2018 fourth-quarter earnings, and it was blockbuster. Beating analyst expectations for both revenue and profit, the company increased its top-line sales by 13% from the same quarter last year, to $9.8 billion. An unexpected pick-up in North American sales had a lot to do with Nike's success in the quarter. Sales for the full year hit $36.4 billion, and the company set an aggressive $50 billion revenue target for FY 2020. In addition to eight new launches over the course of the quarter, recall that the company shifted course last year and began "officially" selling their products on Amazon, which seems to have had a strong positive impact on sales. NKE was trading up 7% in after-market trading following the earnings release. If they can hit their $50 billion target, shares certainly have room to run.   
  
**Pressure mounts on Comcast now that government has OK'd Disney/Fox deal.** It's not that Comcast (CMCSA $30-**$32**-$44) is just going to walk away without making another bid, but this week's US Department of Justice approval of Walt Disney's (DIS $96-**$104**-$113) $71 billion bid to buy Twenty-First Century Fox's (FOX) entertainment assets just put another wall up for the NBC parent. It certainly helped Disney's case when they told regulators that they would immediately divest the company of all 21 regional sports networks (RSNs) if the deal was approved. One of Comcast's major arguments to the Fox board was that Disney would face the same battle it (Comcast) would in gaining government approval. Well, that's off the table. Comcast was reportedly looking to private equity funds for the financing to up their bid, and they may still be, but we believe Disney will end up the winner. Streaming service and Netflix (NFLX) competitor Hulu, by the way, would become a Disney asset via the deal.   
  
**Drug retailers fall as Amazon announces it will buy online pharmacy PillPack.** Walgreens Boots Alliance (WBA) fell nearly 10% in pre-market trading on the report; CVS Health (CVS) was off over 8%. What was the news? Amazon ($932-**$1,666**-$1,763) announced its plans to buy online pharmacy PillPack for an undisclosed amount. This move buttresses concerns by industry players that the $808 billion behemoth was, indeed, planning on becoming a force in the industry. Privately-held PillPack specializes in supplying drugs to patients battling chronic conditions, who must take multiple daily doses for those conditions. While terms of the deal are undisclosed, Walmart (WMT) did consider buying the pharmacy for around $1 billion earlier this year.  
  
**Supreme Court rules against forced union dues for public employees.** For 41 years, public-employee unions have been allowed to force government workers to pay union dues—whether they chose to join their respective union or not. That 1977 precedent, Abood v. Detroit Board of Education, was tossed out on Wednesday by the majority of current justices of the Supreme Court. Unions call these forced payments "fair-share fees," but the majority wrote that this practice amounts to a violation of the First Amendment, in that workers who may oppose the views espoused by the unions are still required to monetarily support those views. Public unions, such as the American Federation of Teachers and the American Federation of State, County, and Municipal Employees (AFSCME) decried the decision and vowed to "stand up and fight." **​  
  
Conagra to buy Pinnacle Foods for $10.9 billion.** Conagra (CAG $32-**$36**-$39) is one of those stodgy old consumer defensive stocks which we have never been able to successfully time; in fact, the old "buy and hold" strategy hasn't worked too well either. Case in point: back in 1997, CAG was selling for $25 per share; sixteen years later it hit $25 again—on the way up. Now, the $14 billion packaged food company plans to buy Pinnacle foods (PF $52-**$65**-$71), owner of the iconic Bird's Eye brand, for $10.9 billion in a cash and stock deal. If Pinnacle shareholders approve the merger, only Nestle would be a larger player in the frozen foods category. This is a low-margin industry undergoing a transformational shift, forcing these types of mergers. Even as the second-largest player post-acquisition, we believe there are much better places to allocate capital within the consumer defensive sector. **​   
  
Sempra Energy signs 20-year agreement to sell LNG to Poland.** One of America's best friends in Europe happens to reside in the eastern part of the continent. Since the Berlin Wall fell, along with the Soviet Union, many Eastern European countries have embraced capitalism full-throttle. Acutely aware of their proximity to Moscow, they have been fostering deeper ties with the United States on a number of different fronts. Poland, in fact, maintains very strong social and economic ties to this country. Add to that the threat of Russia's Gazprom shutting down LNG pipelines to Europe, and this deal makes even more sense. Sempra Energy (SRE $100-**$116**-$123) just signed a 20-year agreement to ship 2 million metric tons per year of liquified natural gas from the company's Port Arthur LNG plant to the Polish Oil & Gas Company. Sempra, a $31 billion diversified utility with a 3% dividend yield, hopes to export 11 million metric tons per year out of its Port Arthur plant within five years.  
  
**Uber allowed to operate again in London—for trial period.** Ride-hailing service Uber just scored a huge victory in a British court, getting permission to operate in London once again, at least for the next fifteen months. Last September, regulator *Transport for London* failed to renew Uber's license in the city for not being "fit and proper" and showing a "lack of corporate responsibility." Odds are, however, that Mayor Sadiq Khan's recommendation that the license not be renewed played a major role. It will be interesting to see what kind of roadblocks city officials put up to make Uber stumble over the next 15 months. The company employs around 35,000 drivers in the city. How important is the city to Uber? It has been one of the company's largest worldwide markets.  
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**Oil prices spike as US urges allies to boycott Iranian oil.** Let's face it, oil and gas prices don't need much of an excuse to spike, taking more money out of our wallets. Crude got just such an excuse today, as the US Department of State said it expects allies to reduce Iranian oil imports to zero by this November or face sanctions. West Texas Intermediate immediately spiked 3% on the announcement, jumping to over $70 per barrel for the first time in the month of June. WTI topped out at $72.02 on May 22nd, and bottomed out about a month later at $64.90 per barrel. We are sure it won't take long for the fresh increase to hit the pumps.   
  
**The Supreme Court sides with American Express; here's what that means.** A narrow, 5-4 decision by the US Supreme Court handed a victory to American Express (AXP $83-**$99**-$103) and a potentially-costly loss to merchants. More than a dozen states and the US Department of Justice filed antitrust charges against the credit card provider, claiming that the company unfairly prohibited retailers from offering incentives to customers who paid by a cheaper method. American Express notoriously charges merchants higher swipe fees, technically known as interchange fees and processing rates, than those charged by Visa (V) and Mastercard (MA). For example, if a merchant has to pay 3% of the total sale value to American Express should a customer uses that card, as opposed to 1.5% to Visa or Mastercard, that merchant might offer an incentive for using one of the latter's cards. The Supreme Court prohibited that practice. It seems crazy, but the majority's argument was that Amex uses those fees to help fund customer incentive programs, and that the firm relies less on interest from revolving credit balances and more on swipe fees and annual fees for its revenue stream. In the end, this may be a mute point. With the likes of Amazon (AMZN) getting into the card transaction business (potentially linking cards directly to Prime members' bank accounts) we should expect new competition to drive down these swipe fees.        
  
**Why beleaguered food products company Campbell's Soup popped nearly 10% on Monday.** Every time we excoriate a company for weak management, poor execution, or a lack of vision, we need to start adding the following disclaimer: "If a catalyst comes along to shake things up at this company, it could pop unexpectedly." Typically, that catalyst is a buyout rumor, which is exactly why Campbell's Soup (CPB $33-**$42**-$54) jumped 9.4% on Monday. The rumor going around is that 3G/Buffet's Kraft Heinz (KHC $54-**$63**-$90) is considering purchasing the company if (as they expect) Campbell's current strategic review points to a sale as the best option. Before the spike, Campbell's had lost over one-third of its value within the past twelve months. Ironically, Kraft Heinz has had nearly an equally bad year, so maybe the two are made for each other.      
  
**SpaceX just Beat Boeing to win a classified military launch contract; here are the two big reasons why.** The SpaceX Falcon Heavy launch vehicle just beat out The United Launch Alliance's reliable Delta IV in an Air Force competition to place a highly-classified satellite in orbit. SpaceX won the contract for two major reasons. First of all, the company has proven itself in the eyes of the Department of Defense  as a reliable launch delivery service—a herculean task. Secondly, the Air Force will pay $130 million for the launch. The average launch price for a satellite aboard a Delta IV is $350 million. ULA's implicit argument has always been, "sure, we are more expensive, but the reliability is worth the extra money." SpaceX has added a new dynamic into the commercial/government synergy with respect to launches and space operations, and that is a very good thing. The United Launch Alliance is a joint effort between Boeing (BA) and Lockheed Martin (LMT).     
  
**Xerox, Fujifilm fight takes another nasty turn.** The original deal was for Xerox (XRX $26-**$26**-$37) to, for all intents and purposes, sell itself to Japan's Fujifilm (FUJIY $35-**$39**-$43) in a $6 billion deal, at the "urging" of activist shareholder Carl Icahn. Then, Icahn nixed the merger which he had urged by saying it undervalued Xerox, and he proceeded to get the CEO replaced and an overhaul of the board. Fujifilm sued for breach of contract, demanding a $1 billion breakup fee. Acting CEO John Visentin then sent a nasty letter to Fuji, claiming Fujifilm's internal accounting issues at Fuji Xerox (the 56-year-old joint venture between the two firms) led to the deal being called off. The latest: Xerox announced it will begin sourcing products from other vendors and does not expect to renew the Fuji Xerox joint venture when it expires in 2021. How will the courts rule on the $1 billion lawsuit? Early indications from the judge do not bode well for Fujifilm. In 1999, Xerox had a market cap of $26 billion. At $26 per share today, its market cap is sitting at $6.5 billion.    
  
**Under the Radar: Party City will try to take advantage of void left by demise of Toys-R-Us.** Here's a $1.5 billion small-cap blend you don't hear much about: Party City Holdco, Inc. (PRTY $10-**$16**-$17), parent company of Party City, Halloween City, Costumes USA, and a number of other small retail operators. The company announced plans, in the wake of Toys-R-Us's liquidation, to open around 50 "pop-up" toy stores this holiday season in high-traffic areas. The plan is to take advantage of the current glut in large strip mall spaces immediately near the company's Halloween City stores which will be opening this September. PRTY also operates a wholesale segment which should allow them to keep the pop-up toy stores stocked throughout the fourth quarter. Party City generates roughly $2.25 billion in revenue each year, and has maintained a positive net income cash flow year-in and year-out. At its current price of $15.85 per share, PRTY has been flying under the radar with a very slim 8.76% p/e ratio.   
  
**GE is now cutting off its limbs in an odd attempt to survive.** $587 billion. That was the market cap of General Electric (GE $13-**$13**-$28) in September of 2000. As of today, GE's market cap is sitting at $113 billion. The company is now a shell of its former self. It made perfect sense to begin jettisoning units which the company had no business ever getting into, such as finance and insurance, but this latest one is a head-scratcher. GE is reportedly looking for a buyer for its industrial gas engines business. This is one of the firm's core competencies, and the action should really have (any remaining) investors questioning the future of the 126-year-old former industrial powerhouse.  GE hopes to get as much as $3 billion for the unit. Last month the company sold another critical industrial division—its railroad operations—for roughly $11 billion. ***Update****: GE just announced it would also be spinning off its healthcare business and divesting itself of its Baker Hughes oil services business.*

***Headlines for the Week of 17—23 Jun 2018***

***From court-martial to father of the United States Air Force...***

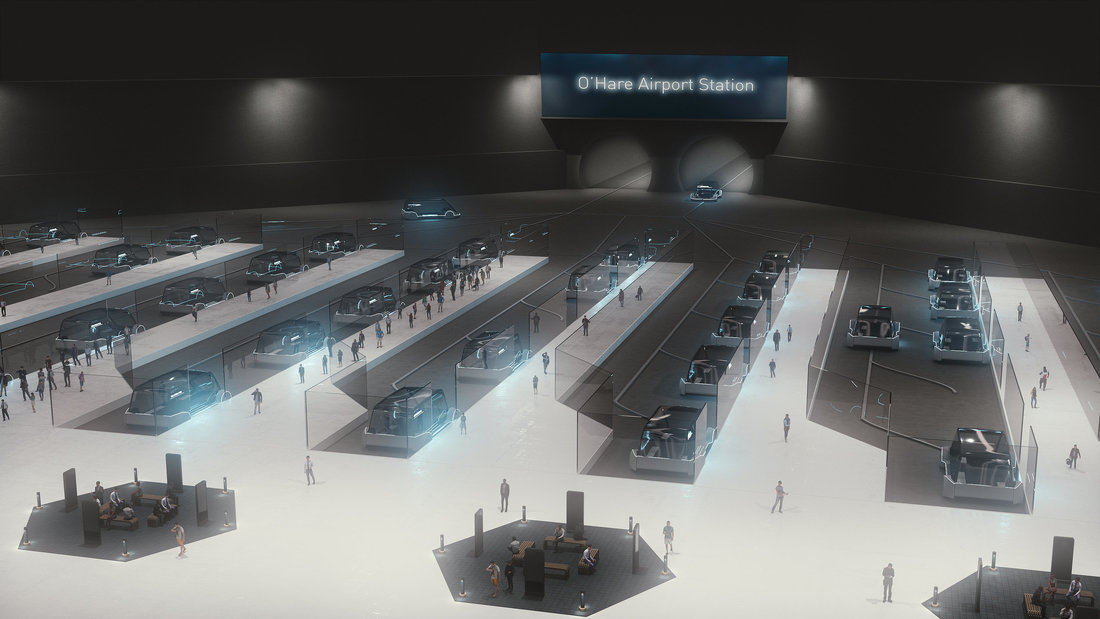


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**​Going out on a limb here: Erdogan will win this Sunday's Turkish election.** I vacillate between a loathing of and an embarrassment for the mainstream media. Several weeks ago, I was watching Bloomberg as they showed live coverage of the first stage of a SpaceX Falcon 9 rocket landing on its drone ship, affectionately named "Of Course I Still Love You." One of the Bloomberg reporters, whom I have nothing against, asked the guest, "Now, who is on board piloting that?" The guest adroitly and quietly answered, "Well no...that doesn't have anyone in it." I thought of that reporter today after watching members of the media breathlessly ask "Will President Erdogan win reelection this Sunday in Turkey?" Really? I don't know, will Vladimir Putin win every election between now and his death, and one after that? Will the mullahs continue to rule Iran? After an attempted coup in 2016, Erdogan has been consolidating power like mad. A suspiciously close recent election eliminated the role of prime minister, and gave the president (Erdogan) the power to make virtually all high-level appointments in government. Does the press corps really think he would leave an election to chance at this stage of the game? The only minor glitch would be if his AK Party (AKP) does not sweep the parliamentary vote this Sunday. We seriously doubt that (the glitch) will occur. Look for an ebullient, wispy-mustached mug all over the news feeds from Turkey this coming Monday morning.    
  
**Penn member Kroger spikes nearly 15% in two trading days.** When Amazon (AMZN) ramped up its pressure on the retail food industry with its purchase of Whole Foods, iconic grocer Kroger (KR $20-**$29**-$31) immediately took it on the chin, hitting a new 52-week low. We then added the company to the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html), as this appeared to be another classic example of the markets *not* being efficient. Were this a poorly-run company, the story would be different, but Kroger has exemplary management in place and is not sitting still while an interloper eats its market share. Evidence of management's success came in the form of the most recent quarterly earnings report. Total sales increased 3.4%—to $37.5 billion—over the same quarter a year ago, and net earnings rose from $0.58 to $0.73 per share, year-over-year. These are dividends being paid from CEO Rodney McMullen's "Restock Kroger" initiative, designed to transform Kroger into a tech-savvy, 21st century food retailing juggernaut. Investors applauded the quarterly results by sending the shares up nearly 15% over the past two trading sessions.   
  
**OPEC agrees to raise output by one million barrels per day.** President Trump reportedly asked OPEC member Saudi Arabia to raise oil output to help alleviate high prices at the pump. The Saudis want to keep America happy. The Russians want to raise output to increase revenues. Iran wants to keep the OPEC cap in place to keep oil prices high and stick it to their sworn enemy—America. In the end, OPEC did agree to "reduce the reduction" put in place via the  group's 2016 deal, compromising just enough to eliminate an Iranian veto (the Iranian oil minister had stormed out of the meeting in a huff Thursday night). On paper, this means an increase of one million barrels per day (BPD) by the group's members and "friends," such as Russia. However, with turmoil and disruption in spots like Venezuela and Libya, the actual effect will probably be more like 600,000 BPD on the market, or 1/2 of 1% of global supply. Markets were underwhelmed by the decision, and Brent crude futures actually rose about 2% on the news. Who has been hurt the most by the higher oil prices? Probably India, which imports over 85% of the oil needed for its rapidly-growing economy. India's pro-business leader, Prime Minister Narendra Modi, removed caps on the price of gas back in 2014, and higher prices at the pump have been causing a consumer backlash against his government.   
  
**Sales tax decision by SCOTUS is good for states, bad for consumers.** For an entire day, I was convinced that I was the only person in America (other than the four dissenting justices) who thought the US Supreme Court made a lousy decision with respect to the collection of online sales tax. Every guest, every retail "expert," every company spokesperson performed verbal backflips after the vote. What does the decision do? It gives the individual states the right to go after anyone selling goods online, *even if those small retailers have no physical presence in their state*. Sorry, that is wrong. The grinning guests on the news networks were all arguing that now "the playing field was leveled" for the brick and mortar stores. Um, er, are we really supposed to believe that the lack of sales tax was the reason Americans were shopping online? Please. Here's who actually gets hurt by the ruling: consumers, who will end up paying the tax; and small "mom-and-pop" companies which sell their goods online, and whose livelihood just got more complex and costly. As for the states—which stand to make billions of dollars in aggregate from the ruling, and which did absolutely *nothing* to generate the revenue—we are sure they will apply the extra money directly toward the welfare of their residents. (That was sarcasm.)   
  
**In shocking development, Intel chief Krzanich is out.** Adding semiconductor juggernaut Intel (INTC $33-**$53**-$58) to the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) was a relatively easy decision. Not only is the company a worldwide industry leader, CEO Brian Krzanich, who started at the company as a process engineer in the early 1980s, has created a masterful strategic plan for the company's future. That future will now go on without Mr. Krzanich, who was asked to resign his post due to an extramarital affair with a female employee of the firm. Despite the consensual nature of the relationship, it violated the company's non-fraternization policy. We don't anticipate selling our position, but we are placing Intel on the watch list.   
  
**Fox "accepts" Disney's higher bid for assets, but this is not over yet.**It is clear that Twenty-First Century Fox (FOX $24-**$48**-$48) would prefer to sell its golden goose to Walt Disney (DIS $96-**$107**-$113), but that pesky Comcast (CMCSA $30-**$33**-$44) simply won't walk away from the table. This past December, after Comcast seemingly walked away from the deal, it appeared that Bob Iger's Disney would pick up Fox for around $28 per share. After a federal judge approved the AT&T/Time Warner merger, however, Comcast immediately swooped back in with a $35/share offer, or $65 billion. This was trumped in short order by a new Disney offer of $38/share, or $71.3 billion. Fox then accepted the new offer. Here's the rub: it is the Fox board's fiduciary duty to seriously consider all real offers, and expect another salvo from Comcast. Rupert Murdoch obviously believes Disney would be a better fit for the empire he has built, but he is getting wealthier with each new bid.  
  
**Starbucks plummets over 7% on downgrades, slowing growth, store closings.**A trio of ugly news reports helped drive Starbucks (SBUX $52-**$52**-$62) shares down over 7% at Wednesday's open. First was the announcement that the embattled coffee chain would be closing 150 stores in "penetrated" markets. Then came management's muted expectations for growth over the coming year—a projection of just 1% same-store-sales growth. Finally, the downgrades. Citing weaker sales in the US and China, Morgan Stanley analyst John Glass lowered the firm's rating on SBUX from overweight to equal-weight, adjusting his 12-month price target down from $72 to $59 per share. Intraday, Starbucks shares hit a new 52-week low of $52.32. For some reason, Kevin Johnson, the firm's new CEO, doesn't instill much confidence in us for the stock going forward. And that is being polite.   
  
**Another sad day in its history: General Electric is booted from the Dow.**Admittedly, I hate the Dow Jones Industrial Average. Not the companies in the Dow, just the index itself. For some odd reason, the aggregate pattern of 30 companies has become the benchmark headline at the end of each trading day. I do have one theory as to why that is: the press loves sensationalism, and it is more sensational to say "the Dow dropped 300 points today!" than it is to say "the S&P 500 lost 30." Nonetheless, it *is* a big headline that the most storied company in the Dow just got booted out of the club. General Electric (GE $13-**$13**-$28), the company which a milquetoast (our opinion) CEO helped shoot down, just got thrown out of the Dow, to be replaced by Walgreen Boots Alliance (WBA $62-**$67**-$84). So sad. It did not need to come to this. GE could still be a thriving, vibrant, American powerhouse. Instead, this original member of the Dow (1907) is now just a shell of its former self. Leadership matters.  
  
**What a difference a generation makes; Ortega loses control of Nicaragua.**He was once the darling of the socialist left. While Ronald Reagan was busy winning his second term by carrying 49 out of 50 states, Nicaragua was going in a different direction—electing leftist Sandinista leader Daniel Ortega with 67% of the vote. A lot has changed since November of 1984, but one thing has not: Daniel Ortega is the president of Nicaragua. This time around, however, the masses are not exactly on his side. As the country descends further into chaos due to Ortega’s purge of political opponents, the people are demanding he go. Ortega controls the government and the police force, however, along with roving paramilitary gangs. The former guerrilla leader may be looking at Maduro in Venezuela for hope, but the revolt in Nicaragua is further along. His political opponents may be dead, but with an uprising in every major city, his days are very numbered.  
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**Shares of Penn Intrepid member Nordic American Tankers pops 21.3% in one day.**Nordic American Tankers has been one of our favorite maritime trading stocks. Extremely volatile, but nonetheless a strong company in the industry, we believed shares were undervalued at $2.10 this past February, so we added the position to the [Penn Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html). On Monday, shares of NAT spiked 21.3% on news that the company was scrapping its bond offering due to its strengthening financial position. On Tuesday morning, as the Dow was falling over 300 points in early trading, NAT held its own. Due to the volatile nature of the shares, we sold our position at $2.63 for a short-term, 25% gain. For members, the sell was annotated within [The Trading Desk](https://www.pennwealthreport.com/trading-desk.html).   
  
**US comes one giant step closer to having an official "space force."**The third annual meeting of the National Space Council will be remembered for one, ultimately historic, event: it was the meeting at which the president of the United States instructed Chairman of the Joint Chiefs of Staff Gen. Joseph Dunford to begin establishment of a United States Space Force. Of course, this will require congressional approval, and it will be fought tooth-and-nail along the way by the president's detractors, but the inevitability of this action is clear. There were plenty of critics back in 1947 as well, when the decision was made to transition from the Army Air Corps to a separate branch known as the United States Air Force. We just assume those in levels of power have foresight and vision. That assumption is wrong more than it is right. The enemies of progress will throw landmines on the tracks, but the train has been set in motion—this country will have its Space Force. What, exactly, will that look like? The relationship between this new branch and the US Air Force will be similar to the relationship between the United States Marine Corps and the US Navy. While the Air Force currently operates the United States Space Command, the other branches also perform space ops. Some argue that a new branch will create an expensive and superfluous layer to the military. Actually, just the opposite is true. As space travel becomes more commonplace, *one* entity must be tasked with maintaining structure and order beyond our atmosphere—not different divisions of separate branches. In the early decades of the 20th century, Billy Mitchell faced a court-martial for proclaiming senior Army and Navy officials incompetent for their lack of understanding of air power. Today, Billy Mitchell is regarded as the "father" of the United States Air Force. Future generations will look back on President Trump as the "father" of the United States Space Force. Nobody will remember the names of his critics.     
  
**As Mexico prepares to lurch (further) left, another Latin American country votes for economic freedom.**These are not happy days for Latin American leftists. The curtain began to fall when their great benefactor, the Soviet Union, was swept into the dustbin of history. Then Hugo Chavez assumed room temperature, followed by el daddy himself, Fidel Castro. Sure, the Daniel Ortegas and Nicolas Maduros are still out there, but they are cartoon characters compared to their leftist heroes. True, millions of people remain impoverished in their respective countries, but the hungry masses are no longer buying what their leaders are selling. Sadly, the people of Mexico are about to make an economically-tragic mistake and elect leftist/nationalist Andres Manuel Lopez as president. They are swimming against the Latin American tide, however, which continues to wash pro-democracy forces into power. Venezuelan neighbor Colombia is the most recent example of this movement. The country just elected conservative former senator Ivan Duque (DOO keh) as their next president, and the tally wasn’t even close. Duque, the charismatic 41-year-old lawyer, beat his leftist opponent, former M-19 guerrilla Gustavo Petro, by a vote of 54% to 42%. Two major planks of Duque’s campaign were combating the flow of Venezuelans flooding into the country’s northeastern border (as many as 100k per month), and fighting the record level of cocaine production. In addition to focusing on these two issues, the new president also plans to reduce taxation and simplify the tax code. ​  
  
**Bank of America double-downgrades Hibbett Sports.**Hibbett Sports (HIBB $10-**$20**-$30) is an athletic specialty retailer founded in Alabama in 1945. In addition to the company’s eCommerce site, Hibbett operates roughly 1,000 brick-and-mortar stores primarily in small- and mid-sized towns. With just a $392 million market cap, HIBB generates about $1 billion in annual revenue. Shares of the stock were off about 4% after a Bank of America analyst downgraded the company from “buy” to “underperform” due to declining sales. Hibbett reported a sales drop of 3.55% last quarter from the same quarter in 2017. With a p/e of just 13, investors should keep an eye on HIBB shares as they cross below the midway point between the 52-week high/low price. Despite a decline last fiscal year, net income has remained positive year after year—a boast a lot of small retailers cannot make. ​

***Headlines for the Week of 10—16 Jun 2018***

***The Boring Company scores a major deal...***



*O'Hare Express Service Station Concept (Photo courtesy:* [*The Boring Company*](https://www.boringcompany.com/chicago/)*)*

**Stellar software applications company Adobe reports record revenue.**Adobe Systems (ADBE $134-**$258**-$259) is, in our humble opinion, one of the most dominant applications software companies in the world. Its Adobe Creative Cloud suite is the benchmark software for professionals in a number of different industries, and its subscription model (pay monthly as opposed to paying for each new upgrade) was a brilliant strategic move. Sticky revenue. Recurring income stream. Those are golden words to a CFO. And that subscription model just helped Adobe hit a new revenue record: for Q2 of 2018, the company brought in $2.2 billion, a 24% year-over-year increase. After the report, RBC Capital Markets raised their price target on shares of the San Jose firm from $268 to $288.   
  
**Under the Radar: Strattec Security.**Strattec Security (STRT $30-**$34**-$49) is a micro-cap ($125 million market cap) industrial company which designs, develops, manufactures, and markets mechanical locks and electronically-enhanced locks and keys. If you purchase a new vehicle, odds are you will receive two keyless black devices; there is a good chance that these devices were built by Strattec. STRT's current P/E is 13, and the current price per share is $33.95. In April, the company reported quarterly revenues of $116.8 million, 6.5% better than the same quarter in 2017, and an $8.39 million beat on estimates. Under the Radar stocks are presented for informational purposes only, and should not be construed as a recommendation to buy.    
  
**Yield spread shrinks to narrowest gap in 11 years—so what?** As of this writing, the 2-year Treasury is yielding 2.570%, and the 10-year Treasury is yielding 2.937%. The difference in yields is 36.7 basis points—the narrowest gap in nearly a dozen years. Who cares? Banks do, for sure. The spread between what they charge clients to borrow and what they get paid for the assets they hold correlates directly to the Treasury bond spread. When it narrows, they make less. So, is a smaller spread bad? Not necessarily. Yes, an inverted yield curve—when short-term rates are higher than longer-term rates—almost always signals that a recession is coming. But, the rates getting a bit closer together is a typical reaction to a Fed tightening cycle, which we are in right now. No need to worry about the flattening yield curve, but it is a good time to review your financial sector holdings.     
  
**US retail sales post biggest pop in six months—double estimate.** There is no doubt about it—the American consumer is feeling better about his/her situation. More evidence of that came in the form of the Commerce Department's retail sales report, which shows the metric climbing 0.8% from April to May, or double what economists had predicted. April's figure was also revised higher. Of note: gas sales were not included in the data, which makes the report all the more impressive, considering the spike in prices at the pump. A generational-low unemployment rate, lower taxes, and a rise in take-home pay were all probable factors leading to the increased level of consumer confidence.   
  
**Musk's Boring Company gains approval to build high-speed express between downtown Chicago and O'Hare International.** The Boring Company, an infrastructure firm created by Elon Musk to build tunnels for his futuristic transport pods, just landed a really big contract: building a high-speed system in Chicago between downtown and O'Hare International Airport. The goal is to cut down travel time between the two points to around twenty minutes. For anyone who has ever traversed the congested, anger-filled highways of Chicago, that is a remarkable goal. The system, which will be financed by The Boring Company, won't use Musk's Hyperloop technology, as the short distances negate the need for vacuum propulsion. Instead, mechanically-operated pods traveling through the tunnels will carry up to 16 passengers and their luggage, with subsequent vehicles departing as frequently as every half-minute. What does Musk and The Boring Company get out of the project? In addition to the fares, which may cost riders around $20 to $25, the company would have an incredible project to market and advertise as it seeks out other municipal projects around the world.   
  
**While US economic growth pushes rates higher, the EU stands pat below zero.** While European Central Bank chief Mario Draghi did announce an end to the ECB's massive bond purchase program (which has flooded the market with over 2 trillion euros, or approximately $2.3 trillion) by the end of 2018, he kept the deposit facility rate (think fed funds rate) at a historically low -0.400%. Yes, European banks must pay for the honor of keeping funds parked at the ECB. Additionally, Draghi lowered expectations for Europe's 2018 economic growth from 2.4% to 2.1%. These are not good signs for the continent. It appears as though the United States and the European Union are on two economically divergent paths. The euroheads can puff their chest and talk with all the bluster they want with respect to tit-for-tat tariffs, but their words are hollow. With the delicate state of their economy, they cannot afford a fight with the US right now. And the US knows it. After Draghi's rate announcement, the euro began its greatest daily decline against the dollar since last October.  
  
**As was widely expected, judge gives green light to AT&T/Time Warner merger.** By most accounts, the US Department of Justice had a pretty thin case against the merger of telecom giants AT&T (T) and Time Warner (TWX). Sure enough, Judge Richard Leon's lengthy approval ruling said as much. In essence, the judge proclaimed this a dying—or at least greatly shifting—industry, with mergers and acquisitions the only way for companies to remain viable. The DoJ argued that the merger would hurt pay-TV customers, but the judge didn't buy it, and he strongly urged the department not to appeal the decision. The transaction values Time Warner at $107 per share, or $85 billion.   
  
**Comcast is back in the bidding for Fox, topping Disney's bid.** Last December we reported that Comcast (CMCSA $30-**$32**-$44) had dropped its bid to buy Twenty-First Century Fox's (FOX) assets. Now, following judicial approval of the $85 billion AT&T/Time Warner merger, they are back in the running. The NBC parent company knows it must grow to remain viable, and it just made a $65 billion offer for the Fox assets. The all-cash bid tops Disney's (DIS) agreed-upon $52.4 billion offer, which includes stakes in streaming service HULU and British news outlet Sky, but the Disney deal would probably be a smoother (and shorter) transaction. If we had to bet, we would predict that Murdoch and his Little Lord Fauntleroy sons will use the Comcast bid to force Disney into upping their offer. In the end, however, we believe Disney will end up with the valuable assets. The fit would be a better one as well. Plus we really just cannot stand Comcast.   
  
**As expected, Fed Funds Rate is hiked to 2%.** The Federal Reserve, as highly anticipated, raised interest rates by 25 basis points on Wednesday, to an upper range of 2%. This represents the fourth rate hike, or 100 basis points in aggregate, within the past year. We anticipate one more hike this year, and as many as three in 2019 before we settle into "normalcy." Expectations for US economic growth have risen to 2.8%. If we get four more hikes over the next year, that would put the Fed Funds Rate at 3%, which the central bank would consider to be in the normal range. During Fed Chair Powell's question and answer period, he stated that a 3% growth rate in the US would not be outside the realm of possibility, or even that surprising.    
  
**Joint US, Canada, Mexico "United 2026" bid selected for 2026 FIFA World Cup.** To non-soccer enthusiasts, this may seem like no big deal; but, to the growing throng of soccer fans in the US, it is an impressive win. 134 FIFA member nations voted to give the United States, Canada, and Mexico joint ownership of the 2026 World Cup games. Morocco came in second, with 65 votes. Canada has never hosted a World Cup, while the United States has hosted one (1994), and Mexico has hosted two (1986 and 1970). Canada did host the Women's World Cup three years ago, with the US Women's National Soccer Team beating Japan to bring home the championship. 48 teams will play 80 matches over a one month period, with 60 of the 80 matches taking place across 10 US cities (including Kansas City, Dallas, and Denver).   
  
**Sage Therapeutics surges nearly 20% on FDA decision.** This is not your father's FDA. Under the leadership of Dr. Scott Gottlieb, the US Food and Drug Administration is as "pro-patient" (meaning anti-trial lawyer) as it has ever been. The focus is now on helping companies get viable drugs into the hands of desperate patients as quickly as possible. What happened to mid-cap biotech Sage Therapeutics (SAGE $60-**$173**-$196) today is a great example of the agency's renewed focus. Sage spiked nearly 20% after news that company representatives met with the FDA and received approval for expedited development of SAGE-217, a drug for depression, major depressive disorder, and postpartum depression. This is a fascinating drug in that it could potentially be used on an "episodic" rather than ongoing basis. In other words, it is fast-acting and targeted enough for patients to use when they are having episodes, rather than requiring a build-up in a patient's system over time.  
  
**President Trump, Kim Jong-un hold historic first meeting.** President Donald Trump and North Korea's Kim Jong-un held a historic meeting in Singapore on Tuesday, and it appears as if it could lead to an enormous geopolitical win: the denuclearization of the Korean Peninsula. Certainly, it is just the beginning of a grand undertaking, but North Korea's dire economic state—thanks to the US-driven embargo—was the catalyst for Kim's promise to completely denuclearize. In return, President Trump agreed to halt joint US/South Korean military drills. Next to the signed initial agreement between the two leaders, the most promising news from the summit was that Secretary of State Mike Pompeo, who graduated first in his class at West Point and first in his class at the Harvard Law School, will be leading the US delegation as we head into advanced talks.  
  
**US Steel to re-open blast furnace B in Granite City, and workers are thrilled.** "We have been in a trade war for 30 years." Those are not the words of President Trump (though he may well have said it); rather, they are the words of US Steel (X $20-**$37**-$48) CEO David Burritt to one of our favorite reporters, CNBC's Jackie DeAngelis, during her [recent visit](https://www.cnbc.com/2018/06/11/us-steel-planning-to-add-more-than-800-jobs-this-year.html) to the company's Granite City, Illinois plant. The company was forced to shutter its Granite City plant back in 2015, but it now plans to have both of the facility's blast furnaces back online by the end of the year, and workers are thrilled to be going back to work. Burritt estimates that 800 new jobs will be created by the action, and notes that the positive impact will ripple throughout the local economy. The US steel and aluminum industries have been pounded over the past decade by the dumping of both metals on the US market. US Steel topped out at $196 per share one decade ago.      
  
**Boston Scientific spikes on takeover bid by Stryker.** Two of our favorite medical device makers may soon become one. Stryker (SYK $138-**$170**-$180), the $65 billion maker of orthopedic, neurotechnology, and spinal devices, has made an unsolicited bid to buy $45 billion Boston Scientific (BSX $25-**$34**-$37), best known for its cardiovascular line (think drug-eluding stents) of products. Recent mergers in the medical device industry have created a red-hot environment as a handful of top players scramble to take, or retain, market share. Last year alone, Medtronic (MDT) paid $50 billion for Tyco spinoff Covidien, and Becton, Dickinson & Co. (BDX) bought CR Bard (think of those painful "urology-based" commercials we are subjected to, typically during the dinner hour) for $24 billion. There could be an interesting play here: BSX spiked over 7% on the rumor, while Stryker fell 5%. (Still, check out the sky-high valuations before investing.)  
  
**USG: With the help of Buffett (once again), another US company is snagged by a foreign buyer.** The global mergers and acquisitions story reads a lot like global trade in that it is often a one-way street: rarely does the US intervene when a foreign entity wants to acquire a US company, but the barriers to a US company acquiring a foreign firm are often insurmountable. We have noticed that Warren Buffett often seems to be a cheerleader for the former deals, from Brazil's 3G Capital acquiring (along with BRK) a majority stake in Heinz and Kraft, to the most recent one: Germany's Knauf KG gobbling up building materials firm USG (USG $26-**$43**-$43) for $7 billion. USG, formerly the United States Gypsum Company, has a rich history dating back to 1902, when 30 independent gypsum rock and plaster manufacturing companies merged to create a building powerhouse. Today, USG is a $6 billion company (well, $7 billion after the takeover bid) which manufactures and sells building materials around the world. "Sheetrock" is a USG brand, for example. Buffet's involvement? His Berkshire Hathaway owns 31% of the firm's outstanding shares, and that block is voting in favor of the deal. Under the terms of the agreement, current USG shareholders will receive $44 per share. That will certainly be a nice payday for Buffett's firm and its investors. We are sure he will stick around to make sure that Knauf keeps the USG headquarters in Chicago, and keeps the majority of the company's 6,800 workers employed.

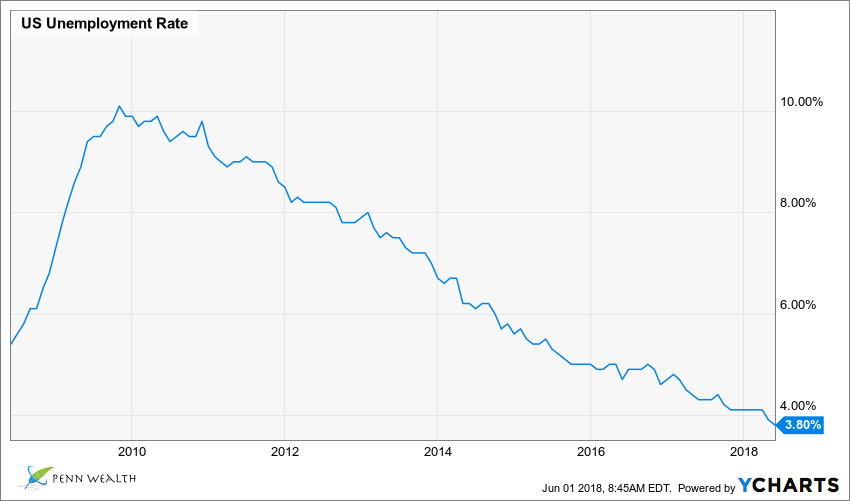
***Headlines for the Week of 03—09 Jun 2018***

***Northrop gets green light to takeover one of our favorite aerospace holdings, Orbital ATK...***

**Eurozone analogy: imagine if California were Brussels, and the remaining states were European nations.** Quick refresher for this analogy: the EU consists of 28 European nations, and the eurozone consists of the 19 nations which adopted the euro as their currency. I have been stressing that not only is the eurozone in trouble, it is an unsustainable and disastrous social experiment guaranteed to fail. Considering the new Italian government's soon-to-be clash with the euro powers in Brussels, it made me think: What if California's governing bodies, from Governor Moonbeam to the bicameral legislature to the court system, were given the authority to dictate fiscal and monetary policy to the remaining states, from Arizona to Florida? California is now demanding Starbucks place cancer warning labels on their cups of joe, so the Starbucks at the Galleria in Dallas must do the same. California is a sanctuary state, so Kansas must be a sanctuary state. Crazy, right? Not if you are an Italian or a Spaniard or a Greek.  
  
Italy wants to initiate new programs within the country to spur the economy, protect its borders, and help their poorest citizens, and they are about to go before the "great minds" in Brussels to argue their case. For this analogy, let's consider Angela Merkel Europe's Governor Moonbeam, as she *is* the effective hammer of the eurozone. Jean-Claude Juncker (think John Kerry) is the actual head of the European Commission. Italy's petition will be torpedoed quicker than an ICE agent would be run out of San Francisco. I'd like to say that there is some colorful exaggeration in this analogy, but the friction between the arrogant Northern European nation-states and the more impoverished southern countries truly is this bad. The fascinating development to watch will be how the Italian electorate—which voted for change—responds to the smack down from nanny Merkel.   
  
**Speaking of California: state ranked dead last for quality of life.** It is so sad. Such a naturally beautiful state. According to the [US News Best State Rankings](https://www.usnews.com/news/best-states/rankings), California came in 50th for "quality of life," just below New Jersey. Remember Horace Greeley's famous 1865 call to "Go West, young man!"? Doubtful he would say that today. The Golden State ranked 46th for "opportunity." The "fiscal stability" ranking wasn't much better, with only seven states lower on the totem pole. Homelessness has been surging in California, along with rents and housing prices; ironic, considering the number of residents fleeing the state. Then again, most of those fleeing are in the lower- and middle-class, so the wealthy are still there to pay the onerous state and local taxes. Did we mention that the California legislature approved a 40% increase in the state excise tax on gasoline last year? At least the state wasn't dead last in the number of residents packing up and calling it quits—that honor went to New York. California was second, and New Jersey was third. There must be a common thread there somewhere; if only it could be identified.   
  
**There's an ETF for that: battery fund launches.** Admittedly, I love exchange-traded funds. Not only are they typically cheaper to own than open-ended mutual funds and trade intra-day (unlike mutual funds), odds are you can find one for that tiny little niche area of the market you are really interested in. Take the brand new Amplify Advanced Battery Metals and Materials ETF (BATT $20), which began trading this week. This actively-managed fund seeks out companies engaged in the business of mining, producing, developing, processing, and recycling advanced battery metals and materials, according to fund house [Amplify](https://amplifyetfs.com/batt). The investment could also fill your probable commodities void, as it provides exposure to lithium, cobalt, nickel, manganese, and graphite via the underlying mining stocks held in the fund. You probably won't recognize many of the 41 or so holdings in BATT (Katanga Mining, LTD is the top holding), but it will be fun to see how it does this year. Its closest competitor would be the Global X Lithium & Battery Tech ETF, symbol LIT, which is up 15% over the past year. Of course, as our disclaimers indicate, this is not a solicitation or a recommendation to buy BATT, and it is certainly a high-risk proposition, but it illustrates just how expansive the ETF market has become.   
  
**S&P, NASDAQ put together three straight sessions of impressive gains.** It's hump day in the trading week, and what a nice one it was. The S&P 500 added 23 points on the day, the Dow rose 346, and the NASDAQ was up 51. For all of the talk of tariff concerns, virtually all sectors have made nice gains this week. Tesla (TSLA), one of the most heavily-shorted stocks, rose nearly 10% on the day after Elon Musk easily beat back some "disgruntled" shareholders and announced that the company was, indeed, on track to build 5,000 Model 3 cars per week by the end of June. Not a pretty day for the bears and the shorts.   
  
**Northrop Grumman gets green light from US to buy Orbital ATK.** We have mixed emotions about this deal, just like we did when Orbital Sciences Corp bought Alliant Techsystems (ATK at the time) back in 2014, forming Orbital ATK (OA $96-**$134**-$135). Nonetheless, the US government just green-lighted Northrop Grumman's (NOC $253-**$334**-$361) proposed $7.8 billion acquisition of Orbital. The Federal Trade Commission (FTC) did stipulate, however, that Northrop supply the solid rocket motors to competitors on missile contracts, and that the companies separate their operations with a "firewall." Both companies have been staples in our Aerospace and Defense portfolio, and we especially hate to lose a mid-cap industrial (Orbital's market cap was around $5 billion before the takeover rumors), but the merger makes sense. Northrop will now have four business sectors: Aerospace Systems, Mission Systems, Technology Services, and the new Innovation Systems.      
  
**Trading Desk: We sold Signet Jewelers in the Intrepid for a 28% short-term gain.** After trading the company for years, we know Signet Jewelers (SIG) inside and out. The luxury retailer, which owns such brands as Kay Jewelers, Zales, and Jared, reported a blowout Q2 on Wednesday morning, driving the stock up over 16% within minutes. We purchased SIG in the Intrepid Trading Platform in March at $40 per share, and sold Wednesday at $51.04 for a 28% short-term gain. Clients/members, see the [Trading Desk](https://www.pennwealthreport.com/trading-desk-private.html).   
  
**Back on top: US has the world's most competitive economy.** Among the world's most competitive economies, the United States has retaken the lead, beating out Hong Kong, Singapore, and the Netherlands. This is according to an annual ranking by the Switzerland-based [IMD World Competitiveness Center](https://www.imd.org/wcc/world-competitiveness-center/), which offers benchmarking services for both countries and companies based on relevant available data. The US leapfrogged three countries from 2017 to take the top spot. The bottom spot on the list? Venezuela. (See: "[Maduro signed his own death warrant with rigged election](https://www.penneconomics.com/latin-america.html).")    
  
**There are now more job openings than unemployed Americans.** According to the Labor Department's Job Openings and Labor Turnover Survey, or JOLTS, there are now more job vacancies in the country than "officially" unemployed Americans. The release, which you can [read here](https://www.bls.gov/news.release/jolts.htm), shows a record high 6.7 million job openings on the last day of April, with notable increases in durable goods manufacturing and information technology. Last week we reported that the unemployment rate in the country is at its lowest level since 1969.   
  
**Tragic end to a great fashion designer, and a good person.** Kate Spade was born Katherine "Katie" Brosnahan in Kansas City, Missouri. After graduating from St. Teresa's Academy and attending the University of Kansas, she transferred to Arizona State University, where she would ultimately meet her future husband, Andy Spade (brother of actor David Spade). From there, the sky was the limit. Seventeen years after selling a controlling stake in her iconic Kate Spade brand to Neiman Marcus (which Coach ultimately purchased for $2.4 billion), she started her new brand, Frances Valentine. On Tuesday morning, the 55-year-old designer was found dead in her Park Avenue apartment from an apparent suicide. She leaves behind her husband, Andy, and 13-year-old daughter, Frances.   
  
**Chipmaker Qualcomm hopes you'll pay for "always-on" laptop technology.** The world's largest wireless chipmaker, San Diego's Qualcomm (QCOM $49-**$59**-$69) is going after rival Intel (INTC) for a greater share of the PC/laptop market, and it is offering users a unique proposition. One of the main reasons people don't take their MacBook or PC laptop with them on the road is the hassle of having to connect to the internet wherever they are. Qualcomm's new chip, the Snapdragon 850, aims to change that with its "always-on" technology. Just like your smartphone or tablet, Snapdragon will give you continuous internet access—without the need to do anything. Samsung has already committed to a new device based around the chip, and plans on having it ready for sale by the end of the year. This technology is long overdue and will, we believe, help lead to a revitalization of the laptop market. Carriers love the idea because it will give them another monthly stream of income, as users will pay a monthly fee for the connection just as they do for their phones and tablets.  
  
**Twitter quietly hits one-year high as it prepares to join S&P 500 index.** Sure, with its $0.01 per share earnings, which equates to a 3,788 p/e ratio, social media platform Twitter (TWTR $16-**$38**-$38) hasn't been on too many bullish analyst lists over the past few years. But, while everyone is telling us how the company doesn't have an effective plan to monetize their business (and who cares how many users there are if you can't turn a profit on them), the company quietly just hit a 52-week high price of $37.98 per share. Additionally, the $30 billion firm is set to replace Monsanto (MON), which is being gobbled up by Germany's Bayer, on the S&P 500 index this Thursday. Looking back, we wish we would have purchased TWTR in the Intrepid Trading Platform last summer (we would be sitting on a 100% gain right now) but, alas, we did not. The company had been bleeding about $500 million per year in losses on roughly $1.5 billion in annual revenues, and we just didn't see a clear strategic path forward. Where do we place the fair value of the company? Somewhere between $25 and $30 per share.  
  
**Remember when we were told that millennials were shunning home ownership?** The press says it and we buy it. It was just a few short years ago that we were told millennials wanted nothing to do with home ownership. Their interests and desires were centered around travel and living in the now, not old-fashioned concepts like starting a family and settling into home ownership. Unfortunately for the narrative, that simply does not appear to be the case. According to government-sponsored enterprise (GSE) Freddie-Mac (FMCC $1-**$2**-$3), nearly half of all new mortgages (not refinances) taken out in the first quarter of 2018 were done so by first-time homebuyers. Couple that with National Association of Realtors data putting the median buying age of first-time purchasers at 32, and we are presented with the reality of a robust millennial home-buying environment.   
  
**Supreme Court rules 7-2 for baker in gay-bias case.** The United States Supreme Court threw out a Colorado Civil Rights Commission ruling that a baker illegally discriminated against a same-sex couple in refusing to bake a cake for their wedding. One commissioner's visceral anger and hostility, clearly visible in the Colorado ruling, garnered the Supreme Court's attention. The commissioner used a comparison to the Holocaust and slavery in the rationale for her decision. Justice Kennedy, the most moderate member of SCOTUS, noted this hostility in writing for the majority. Ruth Bader Ginsburg and Sonia Sotomayor were the lone dissenters on the top court.

***Headlines for the Week of 27 May—02 Jun 2018***

***Lowest unemployment rate in the United States since we placed a man on the moon...***



**Market Pulse: A crazy week to flat.** The market sure exerted a lot of energy this week to end up flat. Tuesday was down big on Italy, Wednesday was up big on Italy, Thursday was down big on tariffs, and Friday was up big on a great jobs report and a North Korean in the Oval Office. When the dust settled on the five sessions, the S&P 500 was up 14, the Dow 30 was off 118, and the NASDAQ was up 120. More importantly for anyone filling up their vehicles, crude dropped from around $70 per barrel to $65.72 per barrel. Oddly, that didn't seem to translate to prices at the pump.   
  
**First Mike Pompeo to North Korea, now Kim Yong-chol to the White House.** How refreshing *not* to see the haughty John Kerry anywhere in the room, meaning real progress—in America's best interest—actually has a chance. After Secretary of State Mike Pompeo's secret visit to Pyongyang in April, during which three American hostages were released from captivity, we now have Kim Jong-un's right hand man, Kim Yong-chol, making a visit to the White House to deliver a personal message to President Trump. After the president threatened to call the whole thing off, it appears that Jong-un is now ready to talk real nuclear disarmament. It looks like the 12 June meeting in Singapore is back on.   
  
**The odd couple forms an Italian government.** Talk about an explosive mix. Italy's League party wants to spur the economy by initiating across-the-board tax cuts and controlling the border. The country's Five Star Movement wants "income equality for the poor" by getting more from the country's wealthy. Both parties consist of anti-establishment eurosceptics, but will that generate enough adhesive to hold them together? We are about to find out. Five Star and League struck a deal on the formation of a new government, with current Italian President Sergio Mattarella finally giving the green light (he used his constitutional power to refuse the previously-proposed government, as it included an anti-eurozone economist as the would-be economics minister). Compromise candidate Giuseppe Conte will be the new prime minister, while Five Star's Luigi Di Maio will be the new welfare and economic development minister, and the League's Matteo Salvini will become interior minister. Salvini has previously pledged to deport hundreds of thousands of the illegal immigrants who have flooded into the country in recent years. This government will be fun to watch...from across the pond.   
  
**Center-right Spanish prime minister out, socialist prime minister in.** For the first time in the country's history, a Spanish leader has been ousted by a no-confidence vote. Prime Minister Mariano Rajoy, who undertook a number of unpopular (but needed) "austerity" measures in the country, was voted out of office in a 180 to 169 tally in parliament, with one abstention. Socialist Party leader Pedro Sanchez will take over, but he will lead a minority government. His party promised to call for new elections before the 2020 deadline, and why would anybody doubt a socialist party's willingness to face the voting public?  
  
**Construction spending and manufacturing both come in hot.** After the strong jobs report rolled in, two more positive economic signs hit the wires. The ISM manufacturing index, a survey of over 300 US manufacturing firms, jumped to a healthy 58.7 reading in May, and US construction spending surged 1.8% in April against expectations for a 0.8% gain. New investments in private construction projects hit their highest monetary level in six years. Will this slew of good economic news put a fourth rate hike on the table for 2018? Perhaps, but we are still expecting three hikes this year, with one already under our belt.      
  
**Hey Merkel, is failing Deutsche Bank America's fault as well?** While Angela Merkel is busy blaming the US for Germany's woes, that country's leading private financial institution, Deutsche Bank (DB $11-**$11**-$20), continues to flop, flounder, and flail. Yesterday, US regulators put DB on its list of problem banks, and today, rating agency S&P lowered the bank's credit rating to BBB+, just three rungs above "junk." DB, which sits at $11 today, was trading at $53 per share just four years ago. And even at $11, the earnings per share comes in at a loss of $0.53. Ouch.    
  
**Jobs report beats estimates, supporting bullish argument.** According to the Bureau of Labor Statistics, the American economy added 223,000 new jobs in the month of May, with the unemployment rate dropping to 3.8%. Expectations were for 188,000 new jobs and a 3.9% unemployment rate. April's numbers were revised up from 135,000 to 155,000 new positions created. The unemployment rate is the lowest level it has been at since 1969. The strongest jobs growth in May came from the education/health services, retail, and construction sectors.  
  
**Walmart unveils $50/month concierge service.** Is the world's biggest retailer, Walmart (WMT $73-**$83**-$110), trying to go upscale? The company is unveiling—in a very limited test region—a new membership service which allows busy Americans the ability to text in the items they need, and receive them at their home either the same day or the following day. Jetblack, which will cost $50 per month for membership, can also send you items from places like Pottery Barn and Saks Fifth Avenue. The program is being run out of Walmart's tech incubator "Store No. 8" in Silicon Valley and is currently being tested in Manhattan and Brooklyn. (How did the "progressives" in Silicon Valley and Manhattan ever allow a Walmart to open under their noses?)   
  
**To Europe's shock and dismay, Trump initiates tariffs.** The headlines read that "the EU will slap tit-for-tat tariffs on the US" for President Trump's action of actually imposing tariffs on steel and aluminum imports. Here's the problem with that false narrative—we import twice as much from Europe as we are allowed to export to Europe. They are secretly terrified, and this will bring them to the negotiating table; the press just doesn't want you to know that.  
  
**Unions lose big at Flexjet.** Pilots at private air carrier Flexjet voted to decertify the Teamsters union. Union representatives blamed the loss on an "aggressive campaign" by management to strong-arm the pilots (huh, we've heard of that tactic being used before). The percentage of private sector workers now belonging to a union has now fallen to around 7%, down from around 33% back in the 1950s.   
  
***Global Trade*  
  
07. Merkel is in over her head with respect to Trump, trade and trade**  
  
Developing...  
  
***Global Fixed Income*  
  
07. While other fixed-income managers were having a banner week, Bill Gross's fund was plummeting**  
  
"*Bill Gross is the undisputed 'Bond King.*'" People sometimes ask me what I mean when I say the media deals in false narratives. That quote is a perfect, glittering example of precisely what I mean. Journalists repeat something so often, and in such a "well *everyone knows*..." manner that people just begin to accept it as fact.  Truth is, PIMCO's co-founder, who was [either fired from or abruptly quit](http://fortune.com/2016/04/04/pimco-bill-gross-note/) the firm and bolted for Janus three years ago, was built up more by slick marketing than actual bond brilliance.  Case in point: look at what just happened to his Janus Henderson Global Unconstrained Bond Fund (JUCIX) this week...[READ MORE](https://www.penneconomics.com/global-fixed-income.html)  
  
***Aerospace & Defense*  
  
06. Remember when Carl Sagan made fun of "Star Wars"?  US missile defense system hit major objectives last year**  
  
I will never forget Ronald Reagan's awesome response to critics who claimed his missile defense system, pejoratively named "Star Wars" by the press, would cost billions and take decades to build. "Well," Reagan said with his famous head tilt, "then we had better get started!" Classic. I thought of that quip while reading over the Government Accountability Office's latest review of the portion of the system designed to intercept and destroy ICBMs launched from North Korea. The ground-based interceptor program, controlled by the US Missile Defense Agency (set up in 1983 by President Reagan) and currently managed by Boeing (BA), met its primary objectives in 2017, to include successfully intercepting a "dummy" ICBM target over the Pacific and placing 44 interceptors online between multiple California and Alaska sites. As for the Star Wars moniker, proponents of the system loved it. Sorry mainstream media. (Visit the [US Missile Defense Agency](https://www.mda.mil).)  
  
***Global Strategy: Europe*  
  
05. "Enlightened" French clear out Paris refugee camp filled mainly with African immigrants**  
  
Oh, the "enlightened" French...what they could teach us rubes here in the United States if only we would listen. Which is what makes this story so bizarre. French police cleared out a refugee camp along the Canal de Saint-Denis in northern Paris on Wednesday, housed with mostly African immigrants (we use that term because of the political incorrectness of using the word migrant) in search of a better life. We assume the immigrants had become an eyesore to the denizens of the region who like to jog and bike along the path in front of the river, but we will no doubt be told it was for the safety of the group. After the immigrants were carted off to local gymnasiums, bulldozers ripped down the tents of the camp. Maybe authorities and their friends in the press can find a way to blame Marine Le Pen and her National Front for the forced relocation. That better fits the false narrative created by the press.   
  
***Economics: Housing*  
  
04. Existing-home prices rose 5.3% in April from previous year, fastest clip in 12 years**  
  
The median sales price for existing homes in the US hit $257,900 in April, which represents a 5.3% increase from April of 2017 and the fastest pace of growth since the summer of 2006.  This rapid jump in the cost of home ownership, along with a shortage of houses on the market and an increase in mortgage rates, led to a 2.5% decline in existing-home sales from March to April. There were 1.8 million existing homes on the market in April, which is not enough to keep up with demand, and less than half the number on the market in July of 2007 when inventory peaked.  
  
***Global Strategy: Europe*  
  
03. The Italian crisis: one more nail in the coffin of a dying euro currency**  
  
It was a harebrained idea from the start, hatched by arrogant European elites from the ruling class. Pseudo-scholars who looked across the pond at America with envy and disdain. Enormous fissures existed within the European alliance, with the gaps being widest between the northern and southern countries of the continent. Nonetheless, nineteen countries gave up their sovereign currencies nineteen years ago and adopted the ill-fated euro. While Brexit was devastating for the European Union it was less so for the eurozone (the monetary alliance of nations who adopted the euro), in that the UK kept its ancient currency. That is not the case with Italy.   
  
The Italian crisis, which was the catalyst for Tuesday's 31-point drop in the S&P 500, is quickly coming to a head, and the elites in Brussels are shaking in their boots. So-called eurosceptics, those opposed to a centralized European government entity, were the clear winners in Italy's national elections this past March, but they are now being denied the ability to form a government. The probable result will be new elections in July or August of this year, with an enraged citizenry likely to give them even more power. Global markets don't like the uncertainty, but Italians are more concerned about their dwindling liberties than they are about the market reaction. And who can blame them?  
  
***Restaurants*  
  
02. Starbucks' "anti-bias training day" says more about the C-suite than it does workers at the coffee house**  
  
We often rail against companies that feel the need to insert themselves into the political arena. More than just displaying the arrogance of executives (the "*everyone knows* we are right" complex), it is also just dumb business: why irritate half of your current or potential customer base? Starbucks' ($53-**$58**-$65) "anti-bias training day" isn't, in our humble opinion, about creating a more tolerant workforce, it is about the optics and the attention the company hopes to garner from fellow members of the "holier-than-thou" club and the useful idiots in the press. If that is *not* the case, why don't they require employees to go through this training in a staggered manner instead of closing roughly 8,000 stores for an afternoon?    
  
Consider the words of Starbucks COO Rosalind Brewer in a CNBC interview: "We have the ability to start a national conversation (about race)." Last we checked, you are a *coffee house*. Furthermore, what does that say about Starbucks' opinion of its 200,000 or so front line workers? Here's a thought: focus your attention on selling as much product as you can in a friendly, inviting atmosphere. When something goes awry (as it has/does with every company throughout the history of companies), resolve the issue at the proper level and move on, instead of seeing systemic racism everywhere you look.   
  
***Beverages*  
  
01. In its constantly-evolving diversification strategy, Coke enters a brand new arena**  
  
Coca-Cola (KO $41-**$42**-$49) has never shied away from pushing the envelope of its industry through bold initiatives. Perhaps the best piece of evidence for that argument was the disastrous introduction of "New Coke" back in 1985 (though some believe it was actually a brilliant marketing ploy). Now, the company founded by inventor John Pemberton back in 1886 is entering into a new arena, albeit on a limited scale. For the first time in its history, Coke is experimenting with booze-infused drinks. Cans of Lemon-Do, a fizzy, lemon-flavored drink with up to 7% alcohol, hit shelves across Japan early this week to an eager audience. Overall, reviews have been positive, but Coke faces stiff competition in the country with entrenched competitors like Kirin Holdings (KNBWY $20-**$29**-$30), a company we introduced to members through the [Under the Radar](https://www.pennwealthreport.com/investment-intelligence.html) section last December (at $22 per share).  This is a testbed for Coke: if the launch is successful in Japan, we can expect to see the line move into other markets around the world.

***Headlines for the Week of 20—26 May 2018***

***And the big winner in retail is (drumroll, please)...***



*Photo courtesy:* [*Tiffany & Co*](https://www.tiffany.com/jewelry-stores)

***Market Pulse*  
  
10. It doesn't feel like it, but all major indexes pulled out a "W" for the week**  
  
If you weren't looking at the numbers, you would probably have the feeling that it was an ugly week for stocks. All you had to do was listen to the useful idiots (UIs) in journalism scream like stuck pigs after President Trump "cancelled" the 12 June meeting with Pot Belly. (What a Reagan-esque move; and we remember how Sam Donaldson and the useful idiots screamed back *then* when Reagan used a similar tactic in Iceland). Maybe investors are beginning to marginalize the UIs, as they (the investors) shrugged off the hysterics almost immediately. And, believe it or not, the major indexes did eke out a small gain on the week. Even more impressive, oil was down 5.6% on the week, though you certainly wouldn't know it if you filled up. Where are we at year-to-date? Ehh, still flat. With the hyperbolic headlines we've faced so far this year, we'll take it.    
  
***Specialty Retail*  
  
09. A lesson in lemmings: excitement over Gap in March, disgust in May**  
  
If we have one investment mantra, or habitual piece of advice to investors, it would be this: learn to take advantage of the false narratives churned out by the press to make money. Sometimes these are purposeful and politically-motivated. Other times they are simply borne out of ignorance and groupthink. Take clothing retailer Gap (GPS $21-**$28**-$36). Just a few short months ago, financial journalists were telling us that shares of Gap were bound to spike soon due to the success of the company's Old Navy chain. Fast forward eight weeks and we see shares of GPS falling 14%. Why? Disappointing sales growth at Old Navy, of course. We didn't write about the heightened anticipation for Gap two months ago because we still saw a slender operating margin (an important profitability metric) of 7 on the company (for comparison, Tiffany has an operating margin of 20). Nor were we thrilled about the company's strategic plans in the face of stiff competition. We place the fair value of GPS at $30. Buying in at $28 is certainly not worth the risk. As for the lemmings, they have no recollection of their excitement for the position. But we do.   
  
***Specialty Retail*  
  
08. Best Buy just reported on a great quarter, so why did shares fall 8%?**  
  
The American consumer is feeling better about their economic situation, and retailers like Best Buy (BBY $52-**$70**-$80) are reaping the rewards of that renewed confidence. Take the company's most recent quarter: same-store sales rose 7.1% from the same period last year, which represents the strongest first-quarter jump in 14 years and is nearly double what analysts were expecting. So what gives; why are shares down so much? It is all about the guidance. CEO Hubert Joly made it clear that Amazon (AMZN) has been, and will remain, the firm's biggest challenge, and that this challenger will continue to have an impact on Best Buy's sales growth. The company is fighting back with new programs such as "total tech support," which will cover all of the electronic devices in your home for under $200 per year. The program also allows for in-home consultations, with representatives reviewing your current layout and making recommendations for upgrades. Amazon has been trying to roll out a similar program, but we do not see it being as effective as Best Buy's, considering the latter has the infrastructure (physical stores, Geek Squad, etc.) to better pull it off. So, muted and cautious guidance was the reason for the the post-earnings report share drop. Best Buy has been one of our favorite trading stocks in the [Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html) over the past ten years or so. Even with the shares down to $70.50, however, we don't feel now is the time to take a new position.   
  
***Consumer Finance*  
  
07. President to sign Senior Safe Act to help protect senior citizens from financial fraud**  
  
One of the most rampant problems in the country with respect to financial malfeasance is the bilking of senior citizens out of their hard-earned savings. From abuse at the hands of beneficiaries and family members who are out for financial gain, to the sale of financial products to individuals who neither understand nor need them, this problem has become enormous—and for many, financially devastating. To combat this abuse, the US House of Representatives has passed the Senior Safe Act, which the president has already said he will sign. The Act eliminates the threat of liability or the violation of privacy laws for financial advisors who report observed fraud being perpetrated on their clients. In addition to the protection provisions, the Act also entices and encourages financial firms to provide training to employees for the detection of suspected abuse. It is estimated that fraud committed by nefarious agents costs senior citizens over $3 billion per year in the United States alone. If managed properly, this Act could go a long way toward solving this growing problem.  
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***Media & Entertainment*  
  
06. Holy cow, the NFL actually made a rational, thoughtful, decision!**  
  
We love football. Our local NFL team might not have been to a Super Bowl in, oh, say two generations, but each year brings new hope. We love America more than we love football, which is why it was so easy to take sides in the bungled, mismanaged, politically-correct comedy that was the National Anthem protest movement. Not only did the NFL fumble the entire incident, they re-hired the very guy at the center of the storm. Let a coach have a losing season and his head is on the chopping block. Let Roger Goodell drive the ratings of his "company" into the garbage, and he is given a five-year contract extension worth $40 million per year. We're not sure if his demands for the lifetime access to a corporate jet and a gold-plated health care plan were met, but at $40 mil a year he should be fine.  
  
After the travesty of Goodell's contract extension, the last thing we expected to see was a common-sense move made against the haters involved in the National Anthem protests, but that is what we got. Under the new rules, which the players' union is none too happy about, any player who refuses to stand for our National Anthem must park himself in the locker room until the fighters have left the skies above the field. In other words, no more grandstanding or shoving personal grievances  down the throat of the fans who, ultimately, pay your outrageous salaries. Still, this sound decision begs the question, what the hell took so long?  
  
***Textiles, Apparel, & Luxury Goods*  
  
05. Tiffany gaps up 16% after very nice quarterly beat**  
  
Shares of luxury retailer Tiffany & Company (TIF $84-**$119**-$120) spiked 16%—close to a new 52-week high—after the famed jeweler reported on a blowout first quarter. Net sales came in at $1.03 billion, an 11% jump from Q1 of 2017, and earnings per share came in at $1.14 versus $0.74 a year ago. Expectations for the full year were also rosy: management expects to see growth in the "high single digits" on strong global sales. The board of directors also approved a $1 billion share buyback program, further buoying investor confidence in the stock. So much for that $60s-range we were looking for to re-purchase the stock.   
  
***Fraud, Waste, & Abuse of Power*  
  
04. Disastrous Dodd-Frank isn't dead, but at least it is about to be clipped**  
  
If you want an understanding of the disastrous Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, you really need go no further than looking at the two clowns whose names adorn the legislation. Barney Frank was a far-left congressman whose mate was busted for [running a male prostitution ring](http://content.time.com/time/specials/2007/article/0,28804,1721111_1721210_1883878,00.html) out of the congressman's Capitol Hill Apartment. Senator Christopher Dodd was the other piece of "bread" in the infamous [Kennedy-Dodd Waitress Sandwich](https://nypost.com/2009/08/30/kennedys-free-pass-with-women/) (the two senators would corner an unsuspecting waitress at a local establishment and make her the "meat" in the sandwich). If that's not enough, consider the Consumer Financial Protection Bureau (CFPB), which was created from the legislation. In 2016, a DC Circuit Court found the CFPB's structure to be unconstitutional, as its director, for all intents and purposes, answered to no one. While the court later changed its mind on that decision, it is easy to see how this government agency could run amuck, unconstrained by Congressional oversight.   
  
While the CFPB was not stripped of its power, Congress did just take a big bite out of Dodd-Frank. In a 258-159 tally, lawmakers voted to water down the law, giving smaller banks a bit of relief from the onerous and costly burdens foisted upon them by the legislation. The bill should pass the US Senate for ultimate approval by the president. More conservative members of the senate, who claim this bill does not go far enough, have been given assurances that a broader set of rollbacks will be introduced for a vote later this year, ahead of the mid-terms.   
  
***Specialty Retail*  
  
03. Mediocre retail CEO goes to mediocre home improvement center**  
  
Yawn. That is the sound of Marvin Ellison, JC Penney's (JCP $2-**$2**-$6) lackluster CEO, abruptly leaving the retailer and bolting for lackluster home improvement retailer Lowe's (LOW $71-**$86**-$109). Let's see, for Ellison this makes: Target, Home Depot, JC Penney, and now Lowe's. We wonder why he can't find a steady job and settle down. We fully understand why a company that has made so many bumbling decisions in the past would hire him, however. What kind of investor just stood up and yelled, "YES, now is the time to buy Lowe's!"? When Ellison took over at JCP in November of 2014 (he became permanent CEO in August of the next year), JCP shares were sitting at around $7.50 per share. Today, they are sitting at $2.37 per share. That equates to nearly a 70% drop. Maybe JCP can re-hire bumbling executive Ron Johnson for a second go at it. For the record, Lowe's was down about 1.5% on the news of Ellison's pending arrival.  
  
***Follow-Up:*** The day after stepping down, Ellison did release a pretty classy video in which he apologized to stakeholders for not delivering. He also said that he "prayed about his future and where God wants him to be at this point in his life...." That was a courageous comment to make, especially in these days of hypersensitivity and cowering chief executives.    
  
***Economics: Happiness Index*  
  
02. Americans felt better about their economic situation in 2017, Fed finds**  
  
An annual survey conducted and released by the Federal Reserve shows that Americans are feeling better about their financial status. The survey found that 74% of the respondents felt "at least okay" with respect to their finances, up from 70% in 2016. Of note: the demographic group with the strongest uptick in the survey was "lower income households." What were the major factors behind the improved numbers? A generational low unemployment rate and an uptick in wages were cited as the main catalysts. Nonetheless, a full 40% of respondents said they still worry about their ability to pay the bills were they to be hit with a financial hardship, such as a sudden illness or loss of employment.   
  
***Global Strategy: Latin America*  
  
01. Our prediction: Maduro signed his own death warrant with rigged election win**  
  
It was an impressive victory. Almost as impressive as every Putin, Chavez, Castro, and Idi Amin electoral victory. And quite amazing. In a country whose citizenry is starving en masse, and where the inflation rate is expected to top 2,000% this year, uncharismatic dictator Nicolas Maduro just got reelected with 76% of Venezuelans (who voted) voting for him—the very man responsible for their dire straits, at least since Hugo assumed room temperature. The fear of torture and death by a dictatorial regime can control the masses for only so long. Freedom will always find a way. More than likely, in Maduro's case, it will begin with an uprising by the nation's military. The government cannot afford to keep all of the high-ranking members—and their families—fed and well paid. Certainly not with a 2,000% per year rate of inflation. And starving people know that bashing America won't put food in their kids' mouths. Maduro will be busy celebrating his victory this week, oblivious to the fact that his days are numbered. Let's just hope that a reformer—not another socialist dictator—will appear to fill the void.

***Headlines for the Week of 13—19 May 2018***

***American Air Superiority...***



*Lockheed Martin F-35 Lightning II (Licensed: Adobe Stock ID 104884579)*

***Economics: Housing*  
  
10. For those still on the fence: mortgage rates just hit a seven-year high and are not stopping there**  
  
Two years ago we were fortunate enough to be in the market for a new home, and fortunate enough to qualify for a VA loan. We locked in a fixed rate of 3.25%. Based on the historical trend, it could be two generations before we see rates like that again. With a strong and growing economy, unemployment at 30-year lows, and the Fed keeping a keen eye on inflation, the average 30-year mortgage rate just spiked to 4.61%. The jump has been a catalyst for many home "lookers" to become home buyers, as we expect to see at least two more rate hikes this year and as many as four in 2019. Even after those six potential hikes, the Fed's benchmark rate would still only be 3.25%—a long cry from the 20% (yes, you read that right) we saw around the time of the 1980 election,  and well below the 5% historical average. From a 30-year mortgage rate standpoint, expect to pay over 6% if you put off purchasing your home until 2020. At least fixed income investors will be getting a decent income stream once again.  
  
***Global Trade*  
  
09. China ends anti-dumping probe into US sorghum imports**  
  
In what could possibly be a hopeful sign for trade negotiations currently going on between the United States and China, the latter has decided to drop its anti-dumping probe into sorghum imports from the US. In a clear act of retribution, China had imposed a nearly 200% "deposit" on the imports last month. China imported nearly $1 billion of sorghum from the US last year, but has increasingly been turning to Russian sorghum as the trade battle heats up. Despite the rhetoric coming from the Communist Chinese government, we continue to reiterate that China will be the biggest loser in a trade war. For anyone who doubts that, simply look at the (im)balance of trade between the two nations. Furthermore, as the Indian economy continues to build steam, the US will have an increasingly-viable alternative to the Chinese goods entering this country.   
  
***Multiline Retail*  
  
08. Macy's might have set the retail tone for the quarter, but JC Penney isn't following the script**  
  
After retailer Macy's (M, see below) released an upbeat earnings report for the quarter, retail analysts hoped that the store's peers would follow suit. Unfortunately, beleaguered JC Penney (JCP $2-**$2**-$6) went a different direction. Marvin Ellison's company reported a first-quarter loss of 22 cents per share on revenue of $2.67 billion. That revenue figure represents a 4.1% drop from the same quarter last year. What was Ellison's excuse? He said the quarter was impacted by a cool spring and the closure of 141 JCP stores in the last fiscal year. Um, OK.  Investors weren't buying it: shares fell about 11% on the day. At $2.59 per share, deep value investors may consider jumping in. Before doing so, consider the fact that the company has lost money six out of the last seven years (it cleared a cool $1 million two years ago).   
  
***Food Products*  
  
07. After yet another bad quarter, Campbell's CEO abruptly resigns**  
  
Three months ago we railed against Campbell's Soup (CPB $39-**$35**-$59) for pushing their political views on consumers instead of focusing on their (declining) business. Now, after watching their share price drop from $68 two years ago to a 52-week low of $35 today (a 49% drop), CEO Denise Morrison has abruptly resigned. Her departure comes on the heels of a less-than-stellar fiscal Q3 earnings report. Revenues for the quarter came in at $2.13 billion, a miss of $10 million, and guidance for the coming year was disappointingly low. This is an excruciating time for the packaged food industry, as consumers continue to migrate to the fresh food "outer aisles" of the store; mediocrity in the C-suites is not an option for the companies within this distressed industry.    
  
***Global Strategy: Europe*  
  
06. Trump Administration steps up pressure on Europe over Russian pipeline**  
  
With friends like this, who needs enemies? It is almost as if Germany's Frau Frump is more comfortable with Vlad Putin than she is with the US president. Actually, we take that back, we are *certain* she is more comfortable with our Russian enemy. In the last issue of [The Penn Wealth Report](https://www.pennwealthreport.com/penn-all-access.html) ([Clients/Members click here to read](http://pennwealth.uberflip.com/i/958170/17)), we reported on the proposed Nord Stream 2 pipeline, which belies the EU's supposed strategy of weening itself off of Russian gas. Putin and Merkel (Frau Frump) appear to be the only two parties married to the deal. Now, the US has stepped up the pressure, warning that sanctions could be headed the EU's way if the deal goes through. These sanctions could affect companies in Germany, France, Austria, and the Netherlands. Our true friends in Eastern Europe (who are embracing democracy as their "developed" neighbors to the west increasingly shun it) are adamantly opposed to the Nord Stream 2. It is of interest to note that the Netherland's Royal Dutch Shell, PLC (RDS.A) has offered to provide financing to Russia's Gazprom to complete the project. We predict the pipeline never gets built.   
  
***Global Strategy: Middle East*  
  
05. Despite their NATO membership, the US should rethink sale of F-35s to Turkey**  
  
It's the latest weapon in our Air Force arsenal. The Lockheed Martin (LMT)-built F-35 Lightning II. The stealthy, fifth-generation fighter represents, along with the F-22 Raptor, America's ongoing dominance of the skies. And Turkey wants at least 100 F-35s in its fleet. Now, for the second time in two years, Congress is moving to block the sale. Turkey may be a NATO member, and the country is located in an uber-strategic location between Europe and the Middle East, but President Recep Tayyip Erdogan's recent consolidation of power, and his anti-American rhetoric, should give the US pause. If the bipartisan move to block the sale succeeds, LMT could lose a major sale and Erdogan would ramp up his anti-US saber-rattling, but should we care? To further complicate matters, Turkey has been a major backer of the Syrian opposition, pitting that country against our enemies, namely Assad and Putin. Turkey also took part in US-led airstrikes against Islamic State targets in Syria. Should the F-35 sale go through? That's a tough one. It appears that Defense Secretary Mattis wants the sale to take place, and it is likely that President Trump would overrule a potential congressional ban. In the end, we believe that is precisely what will happen.   
  
***Media & Entertainment*  
  
04. Fascinating battle for control of CBS/Viacom heats up between Redstone family and Moonves**  
  
Brief background to the unfolding drama: The Redstone family (primarily Shari, now that her 92-year-old father, Sumner, is essentially out of it) owns movie theater company National Amusements. National Amusements owns 80% of the voting stock of both CBS (CBS) and Viacom (VIA). However, under CBS' dual-class stock structure, their firm has only a 10% economic interest in the companies. Shari Redstone wants CBS and Viacom to merge, with her in ultimate control of the new entity. Les Moonves is the CEO of CBS, and is at war with Redstone over control. CBS has a $20 billion market cap, while Viacom is sitting at $13 billion. The latter, however, has had a string of recent television and movie successes, making Viacom shareholders greedy for a bigger premium in a merger.  
  
The latest: CBS has taken legal action to strip the Redstone family of voting rights, with the case in the courts right now. In retribution, Redstone's National Amusements just threw down a dictate changing how the CBS board functions, essentially stripping it of the power to water down the family's voting rights from 80% to 17%. A Delaware judge has just ruled that no more moves are to be made before a decision is issued on the CBS case. If nothing else, it looks like we have a great plot for Viacom's next blockbuster hit.    
  
*(Update: CBS lost its legal bid to block the Redstone family's voting rights; odds are this means that Moonves is out. Don't feel too bad for him, however, as he will walk away with over $200 million if he is canned.)*  
  
***Multiline Retail*  
  
03. Macy's pops 11% after surprise earnings beat and raised guidance for year**  
  
After too many quarters in a row to count, centenarian retailer Macy's (M $17-**$33**-$33) popped nearly 11%—to a new 52-week high—after releasing a surprisingly-good quarterly earnings report. A strong economy, low unemployment, and the closing of a large number of unprofitable stores were all factors in the 4.2% jump in same-store sales over the same quarter last year. Interestingly, the company announced a new initiative which will allow employees to share in the booty based on the performance of their store. Now that actually might make some of the employees I see standing around while I need help actually step up to the plate and do their job. In the first quarter revenue rose 3.6%, to $5.54 billion, and profit jumped 78% from 2017Q1, to $139 million. One other interesting tidbit: the company announced the purchase of NYC concept store STORY, which is known for changing highlighted fashions and designs every month or two. Even at $33.17, Macy's p/e is still an incredibly low 6. We just wish we had more confidence in the company's ability to change the customer service experience.  
  
***Global Strategy: Europe*  
  
02. Hey Germany, don't blame the US for your slowing economy**  
  
Angela Merkel is a lot like former FBI Director James Comey in that neither can stand being in the room with US President Donald Trump. When you see French President Emmanuel Macron with Trump, it is evident that there is mutual respect and a growing friendship between the two. Ditto Canadian Prime Minister Justin Trudeau. It is of interest to note that both of these leaders are from their respective country's left-leaning parties. When you see Angela Merkel at a podium next to the president, you sense discomfort and even a hint of arrogant contempt on the part of the four-term German leader. If reports are to be believed, the majority of German people feel the same way as their frumpy commandant.  
  
​Under that backdrop, we must admit to getting a chuckle out of the latest German economic reading. In the fourth-quarter of 2017, Germany's GDP came in at 0.6% growth. In Q1 of 2018, that number was halved, to 0.3%. Not only is that dismal, it is also behind Europe as a whole and most of the other nations on the continent. While the UK did come in a bit behind Germany from a GDP standpoint, that region just added 200,000 new jobs during the quarter and watched its unemployment rate drop to a 43-year low. Germans can blame Donald Trump all they want for their woes, but shouldn't they focus their energy on growing the German economy instead?  
  
***Hotels, Resorts, & Cruise Lines*  
  
01. US Supreme Court rules betting on sports is legal, and not just in Nevada**  
  
According to the American Sports Betting Coalition, $58 billion in illegal bets were placed on NFL and college football games alone last year, while just $2 billion was bet legally. That is about to change, and someone is going to rake in the dough. When New Jersey threw out the state law prohibiting sports gambling at its casinos, they were—as expected—taken to court. That case worked itself through the court system to the very top of the chain. The 6-3 Supreme Court decision effectively ends Nevada's reign on legalized sports gambling. Who will be the big winners thanks to the decision? Let's look at what happened to some select stocks when the announcement came down: Churchill Downs (CHDN) rose 4%; Caesar's Entertainment (CZR) rose 6%; and William Hill PLC (WIMHF), a UK-based sports betting and gaming services company, rose 10%. Want to take a stab as to who wants a piece of the pie now? You guessed it—the NBA just became the first group to lobby for a new federal law mandating a percentage of all bets go to the respective sports league. Can little Roger Goodell be far behind?

***Headlines for the Week of 06 May—12 May 2018***

[***"Flexjet supports pilots' effort to decertify Teamsters Local 1108..."***](https://www.flexjet.com/press/)



*Flexjet Gulfstream G650s (Photo courtesy* [*Flexjet*](https://www.flexjet.com/press/)*)*

***Market Pulse*  
  
20. After successful week in the market, all major indexes now positive for the year**  
  
The Dow was the last holdout. Following the drubbing it took in February and March, and after pulling 568 points and five straight sessions in the green out of its hat this week, the index is back above where it started the trading year on January 2nd. The overriding positive for the week seemed to be allayed fears over inflation forcing up rates too quickly. Additionally, the optics of three Americans detained in North Korea finally coming home, and the solidified plans for a US/North Korean summit helped calm nervous investors. Surprisingly, the announcement of the nixing of the Iran nuclear deal (at least from a US standpoint) didn't hurt the markets whatsoever. When the dust settled on the week, the S&P 500 (the best metric to look at) was up 2.4%, the Dow +2.34%, and the NASDAQ +2.68%. Here's to a great weekend.   
  
***Airlines*  
  
19. In the great Tomato Juice War, United capitulates**  
  
It seemed like a benign-enough move: tomato juice was one of the least-requested items on the drink cart at United Airlines (UAL $57-**$67**-$83), so why not just remove it? In the social media age, not so fast. After the airline yanked the booze-friendly juice, customers went to Twitter to voice their displeasure. After dragging a passenger off a flight last year to make room for an employee, and after killing a dog in-flight this past March, gun-shy United reinstated the little 5.5 ounce cans. In our humble opinion, United's CEO, Oscar Munoz, is a walking disaster, and the fact that he was "magnanimous enough" to forego his bonus this year (what a peach) means nothing. We watched his immediate, on-air response to the passenger incident last year, and it was pompous, tone-deaf, and arrogant. Proof of that was his rush to the microphone to change his tune just a day later. He needs to go before we would consider UAL stock. Yet another clear example of dangerous hubris in the CEO suite.   
  
***Global Strategy: Europe*  
  
18. Bad news for the EU swamp: Italy's populist Five Star Movement closer to forming a working government**  
  
Despite the tremendous success of the populist Five Star Movement (MS5) in the Italian national elections this past March, the Eurocrats who control the European Union were holding out hope that this group of rabbles would not be able to cobble together enough support to actually form a working government. Uh oh. Former Prime Minister Silvio Berlusconi, leader of the Forza Italia party, just announced that he was open to the formation of a government by MS5, and that he would support the center-right policies within any such alliance. Italy is the most indebted of the EU nations (not to be bailed out by Brussels), and the friction between the country's new government—when it is finally formed—and the hawks in Germany will be red-hot. From across the pond, what fun this will be to watch. Perhaps even more fun than the Brexit brouhaha.    
  
***Cybersecurity*  
  
17. Symantec loses one-third of its value immediately after announcing internal investigation**  
  
From an investment standpoint, it is interesting. From a torte reform standpoint, it is disgusting. Two things immediately happened after cybersecurity leader Symantec (SYMC $25-**$20**-$34) announced that it had opened an internal investigation based on "concerns raised by a former employee." First, the stock dropped by 33%, plunging through its 52-week low. Second, headlines came screaming through the SYMC newsfeed showing the names of law firms opening investigations into the matter. No matter what the company's internal investigation shows, something tells us that the "independent and fair-minded" law firms will all find pain and suffering caused. All we know thus far is that Symantec has voluntarily notified the SEC that its internal audit committee has launched the investigation, and that it probably won't file its annual report on time due to the matter.  Whether the case surrounds a security breach (SYMC owns LifeLock) or something entirely different, we simply don't yet know. The company's lukewarm guidance for the fiscal year, issued after Thursday's close, didn't help matters. We purchased SYMC in the [Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html) at $20.09 and sold the shares at $32.50, for a 62% gain. Would we buy now? No. We need to hear the details of the case and survey the fallout.   
  
***Fixed Income*  
  
16. Penn adds Goldman Sachs fixed-rate note to Strategic Income Portfolio**  
  
It takes a real fixed income geek to get excited about a short-term, 3% note, but that is what near-zero rates have done to us. On Thursday we added a new issue ***Goldman Sachs two-year note*** to our individual issues within the [Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html). The note, cusip number 38150A6Z3, pays semi-annually, is callable on or after 24 Nov 2018, and matures on 24 May 2020. Goldman has a Moody's/S&P rating of A3/BBB+.   
  
Our goal is to slowly start adding to our fixed income asset class with these shorter-term holdings with the full expectation of higher rates when they mature—allowing us to rollover the proceeds into a higher-rate vehicle. On our fixed income ladder, we are very heavy on the lower-duration rungs and extremely thin further out (past five years). As rates rise, we will begin to level out the longer maturity/duration rungs. For the current Treasury yield curve, visit our [Fixed Income page](https://www.pennwealthreport.com/the-penn-portfolios.html).   
  
***Global Strategy: Europe*  
  
15. Rift between EU leaders France and Germany deepens; oddly, we support the French position**  
  
These are odd times, indeed. We have a "globalist" president of France, who is friends with the "nationalistic" president of the United States, telling the four-term leader of Germany, who came from Communist East Germany, that she needs to chill out and become a team player. What a disappointment Merkel has been since she was first elected in 2005—way too long ago; and what a pleasant surprise Emmanuel Macron has been since he moved into Élysée Palace last year. The latest EU rift came as Macron dressed down Merkel in a speech after accepting the "Charlemagne Prize" for his work on European unification. Merkel was in the audience. Macron's beef is fiscal: he believes Germany is putting its own global trade interests ahead of those of the European Union's. The money line that had to make Merkel wince: "Germany can't have a perpetual fetish about budget and trade surpluses, because they come at the expense of others." Ouch. We love it.   
  
***Airlines*  
  
14. Flexjet pilots pushing to decertify union and dump the Teamsters**  
  
In a government-supervised vote which began Wednesday and will run through the end of the month, pilots at jet-leasing company Flexjet are deciding whether or not they want the Teamsters on their turf any longer. And it is not looking good for organized labor. The Teamsters pushed their way in at Flexjet in a narrowly-won vote two years ago, but pilots now question what has been gained by the move. The decline of organized labor's power in America over the past two generations is dramatic. In the 1950s, nearly one out of every three American private sector workers were members of a union; today, the number sits at about 7%. As for the vote at Flexjet, in a wonderfully ironic bit of hyperbole, union leaders say they have evidence that management has been strong-arming pilots into voting for decertification.   
  
***Fraud, Waste, & Abuse of Power*  
  
13. It's funny unless you live there: California to mandate solar panels on all new homes built**  
  
At what point does comic relief from the most communist-like state in the union stop becoming funny and start becoming a real threat to the people? It wasn't enough that California ruled that Starbucks (SBUX) and other coffee houses must place cancer warnings on each cup of joe sold; now, the California Energy Commission has mandated—in true Marxist form—that virtually all new homes built in the state after 01 Jan 2020 must be equipped with solar panels. Forget the added cost that mandate will add to the price of every new home sold, what about the freedoms afforded to individuals over a tyrannical government via the US Constitution? That document means nothing to most of the judges on the 9th Circuit Court of Appeals in San Francisco, so why should it mean anything to the absolute clowns entrenched in local governments throughout the state? Californians are showing their disapproval for this kind of thugocracy by becoming ex-Californians at a record clip, but at some point a stand must be made against these New-Age "enlightened" bullies within the state. We are all for solar panels and alternative energy. We are also all for rice cookers (of the type that Fidel Castro gave to every mother in Cuba about a decade ago). We just disagree as to who should be making the decisions—the individual or a nanny government worker.   
  
***Trading Desk*  
  
12. Putting stop loss on our Abbott Labs**  
  
Since purchasing Abbott Labs (ABT $43-**$59**-$65) in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html), it has risen 116% and surpassed our initial price target of $50. While we don't normally put stops on holdings in the PGLC, and while we still like this company's outlook, the 225 p/e is making us nervous. Based strictly on valuation, we are placing a $58 stop loss on the position to protect our gains.    
  
***Market Pulse*  
  
11. Investors may be leery of the stock market, but this AI-managed fund is all-in**  
  
We are all aware of the burgeoning artificial intelligence field, or AI, which promises to transform virtually every aspect of our lives, from transportation to home management to health care. Not to be left out, Wall Street is also beginning to embrace the technology behind this movement. For example, the *Horizons Active A.I. Global Equity ETF* is a computer-driven fund, trading on the Toronto Stock Exchange under the symbol MIND, which uses a proprietary AI selection process to analyze massive amounts of data and extract underlying patterns. The fund can, for all intents and purposes, go where it wants, allocating to or away from certain asset classes at will. While many staid investors are fretting over the "sell in May and go away..." aphorism, this AI fund just made an interesting move: on April 30th it cut its cash position down to 1% (it can hold as much as 25% in cash) and increased its equity holdings to 99%. This will be a fascinating experiment to watch. Let's make a note of where the markets are today ( S&P 500 @ 2,672, Dow @ 24,360, NASDAQ @ 7,267 ) and revisit this story at the start of the St. Leger Festival (the time it is supposed to be "safe" to jump back into stocks) on September 12th.   
  
***Global Strategy: Middle East*  
  
10. Markets rise as President Trump pulls US out of disastrous Iranian nuclear deal**  
  
To say the Iranian nuclear deal was faulty would be akin to saying that Neville Chamberlain wasn't tough enough on Hitler in his 1938 "peace for our time" speech. The deal was a joke, cobbled together by a blowhard who could be the great grandson of Chamberlain. That being said, I fully expected to see the Dow drop as the president's speech was being carried, perhaps by hundreds of points. Interestingly, the S&P 500 and Dow went from negative at the start of the speech to positive at the end. Furthermore, oil futures were down on the day as investors tried to digest what the pullout will actually mean. While the markets did turn negative again in the afternoon, the muted response to the decision was refreshing. Too often we see illogical moves by investors based on short-term feelings rather than sound strategic thinking. After all, what would be the potential impact on the markets of a nuclear-capable Iran?  
  
***Fraud, Waste, & Abuse of Power*  
  
09. He may have resigned, but NY Attorney General Schneiderman's troubles are just beginning**  
  
Like so many who held that office prior to him, New York Attorney General Eric Schneiderman wanted to make a name for himself—and gain a higher position—by attacking and demonizing the business community. Instead, he fell "victim" to the same moral failings as peers Eliot Spitzer and Anthony Weiner. Schneiderman resigned his post on Monday night, following allegations of sexual and physical abuse levied by a number of different women. There goes his third term in that position, not to mention his stepping stones to the New York governor's mansion...and perhaps beyond. A criminal probe into the former AG is expected to begin soon.    
  
***Restaurants*  
  
08. Pizza Hut latest restaurant to enhance its delivery service with booze**  
  
While the experiment will only take place in a few select cities, we expect it to be a big hit. Yum Brands' (YUM $68-**$83**-$88) Pizza Hut chain has announced that it will launch a pilot test in roughly 100 restaurants in the Southwestern US to add cold beer to the delivery menu. Free delivery will come with the purchase of select six-packs of beer, such as Blue Moon and Coors Light, and the suds will be delivered in a specially-designed cooler to assure they remain frosty on the trip. Last year we reported that TGI Fridays was undertaking a pilot program to deliver mixed drinks to delivery customers in select cities. Nothing (well, almost nothing) sells like booze.   
  
***Health Care Information & Services*  
  
07. Athenahealth gets unsolicited takeover bid from Paul Singer's Elliott Management**  
  
Nearly one year ago we reported that Paul Singer, the billionaire founder of Elliott Management, had purchased a 9.2% stake in Jonathan Bush's (the nephew of former President George H.W. Bush) healthcare IT company Athenahealth (ATHN $103-**$150**-$159). After Singer's position was reported, shares of ATHN shot up 25%—to $130. Shareholders can now thank Mr. Singer once more, as his unsolicited bid to buy the firm for $160 per share was the catalyst for another 23% jump in the price of the stock. That offer values the company at roughly $7 billion. Bush, the outspoken CEO of the firm, has been relatively mum on news of the deal, but we do know that he has been one of the leading proponents for the digitalization of health care in an effort to improve the level of care given to patients.    
  
***Economics: Work & Pay*  
  
06. Now hiring: nearly 7 million new positions available as of this past March**  
  
In the aftermath of the Great Financial Crisis of 2008, there were nearly seven unemployed Americans for every one job available. What a difference a decade makes. According to the US Department of Labor, there were 6.6 million private sector jobs available as of March, 2018, or basically one job for each unemployed worker in the country. While wage inflation has remained muted during this cycle of economic growth, this statistic is almost guaranteed to change the dynamic, forcing companies to pay more—both to retain their existing workforce and to hire new staff. With the official US unemployment rate sitting at 3.9% and the working-age population on the decline,  employees are back in the driver's seat. What are some of the hottest industries for job seekers? Health care, information technology, and the retail services sector are posting the highest number of new job openings, according to the US Department of Labor.   
  
***Biotechnology*  
  
05. In largest Japanese takeover ever, Takeda will buy European biotech Shire for $62 billion**  
  
It is a deal valued at $62 billion, pulled off by a company with a market cap half that size. Japanese drug manufacturer Takeda Pharmaceutical (TKPYY $20-**$21**-$31) announced plans to acquire European biotech Shire PLC (SHPGF $41-**$52-**$62), best known for its stable of rare disease drugs, for $66.21 per share—half of that in cash and the other half in Takeda shares for each Shire share owned. Shareholders need to agree on the deal (they will) which will create the eighth-largest drug company in the world. The deal had better pay off relatively quickly after the close, as Takeda will borrow massive amounts of money to pull it off at the asking price. When done, shares of the combined company will list on the Tokyo Stock Exchange.   
  
***Computers & Peripherals*  
  
04. All of a sudden, Apple is sitting within striking distance of $1 trillion**  
  
Remember a few months ago when everyone was sour on Apple (AAPL 142-**$186**-$188), disparaging the iPhone X and the company's supposed dearth of new and exciting products? Like lemmings, the financial press and their guest analysts began feeding off of each other's negativity, until everyone in the group-think-tank was convinced that the company was in trouble. That was roughly the time (02 Feb 18 @ $164.21) we were busy adding shares of AAPL to the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html). My, how a few months of a stock rally can quiet the critics. They won't mention what they were saying back then, but we remember. Now, all of a sudden, Apple is within 10% of doing something no other company has ever done: reaching $1 trillion in market capitalization. Where are the nearest competitors? Amazon (AMZN), who we were assured would be the first to hit that mark, is sitting at a $777B cap, Microsoft (MSFT) at $740B, and Alphabet (GOOG) at $735B. This is a golden example of what we mean when we say that astute investors can create wealth by reading through the false or misinformed narratives being shoveled out by the press corps. Here's to Apple's next 10%.   
  
***Economics: Housing*  
  
03. Buyers and sellers agree: now is a great time to buy or sell a home**  
  
Fannie Mae's Home Purchase Sentiment Index® just hit a record high in the month of April, indicating that demand for residential housing is still red-hot. The HPSI rose 3.4 points in the month, to 91.7 on a scale of 1 to 100. Sellers see a strong upward trajectory for home prices, while buyers see the writing on the wall that rates are only going up from here. Additionally, a tight supply on the market has added impetus to making a move right now. For all of the talk we heard recently about millennials shunning home ownership, this demographic group is now solidly in the "we want a home" camp—proving once again how false narratives can take hold and warp investors' thinking. The average new home price for houses sold in March of this year was $369,900, and the average 30-year mortgage rate as of this week is 4.54%.   
  
***REITs*  
  
02. Blackstone Group to buy Gramercy Property Trust for $7.6 billion**  
  
[Penn Strategic Income Portfolio](https://www.pennwealthreport.com/the-penn-portfolios.html) member Blackstone Group (BX $29-**$32**-$38) has agreed to purchase warehouse REIT Gramercy Properties Trust (GPT) for $27.50 per share, or around $7.6 billion. The warehouse REIT niche has been a fascinating one to watch, as companies like Amazon, UPS, and FedEx continue to build enormous holding spaces throughout the country at breakneck speeds. These structures can be seen dotting the landscape along many US highways, often between fields of corn and wheat. GPT's share price immediately shot up 15%—to the asking price—as the news broke. Blackstone, which has a current dividend yield of 6.85%, is flat for the year.   
  
***Energy Commodities*  
  
01. Despite record US output, oil prices continue their climb on geopolitical risks**  
  
US crude oil broke through $70 per barrel on Monday, marking its highest price since 2014 and representing a 45% spike from one year ago. This occurred despite the fact that US energy production is at its highest level in history—over 10 million barrels per day are now being produced, versus around half that amount just ten years ago. With all of this added US supply, why does the price of crude continue to rise? Geopolitical forces around the globe are conspiring to foment fear and uncertainty in the energy commodities space. In Venezuela, a virtual breakdown of the government has frozen that country's oil infrastructure. With respect to Iran, fear that the president will pull out of the 2015 nuclear deal (which was horrible, even if Iran were abiding by the terms—which they are not) is putting upward pressure on prices. Meanwhile, the Saudis continue to push for $80/barrel oil as that country struggles to fund their massive economic transformation. In the past, we might have been tempted to purchase a short oil fund with prices this elevated; right now, however, there is simply too much uncertainty.

***Headlines for the Week of 29 Apr—01 May 2018***

***DARPA's quite remarkable new unmanned aerial vehicle program known as Gremlins...***

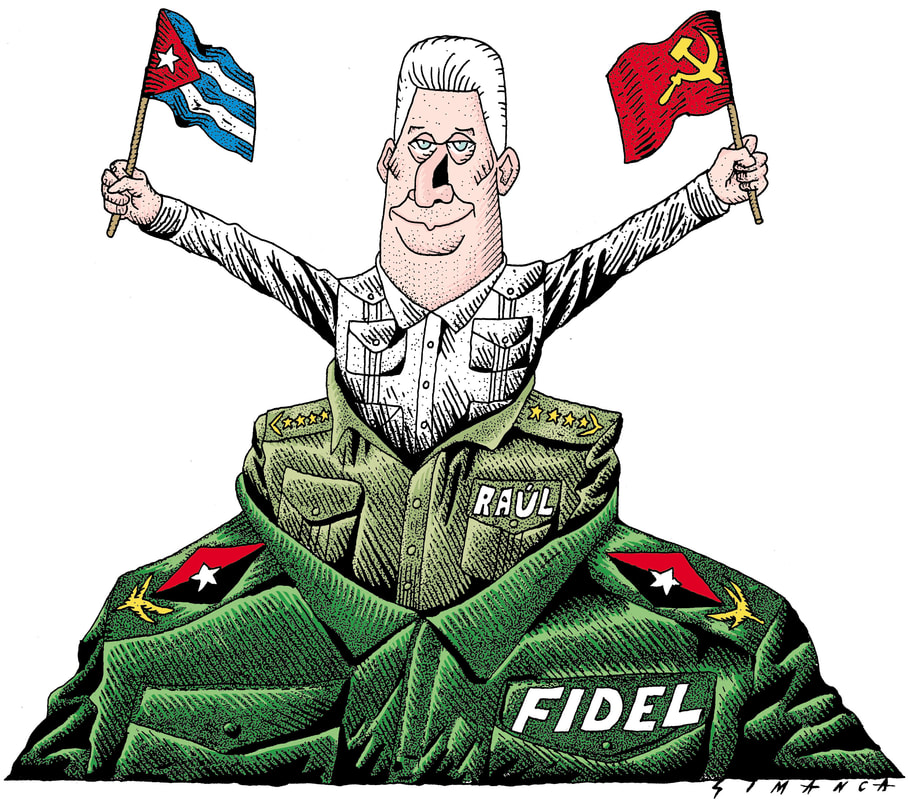


*Photo Courtesy:* [*Dynetics, Inc.*](https://dynetics.com/strike-systems/#gremlins)

***Market Pulse*  
  
10. Major indexes came into the week with a whimper, march out with a roar**  
  
For all of the ugliness in the Dow during the first three trading sessions of the week (why are journalists so fixated on 30 stocks?), that index ended almost precisely flat for the week—down two basis points. Ditto the more relevant S&P 500. With the tech-heavy NASDAQ's 121 point gain on Friday, that index ended the week up 130 basis points. The press corps dusted off their cutesy aphorism "sell in May, go away, come back on St. Ledger's Day" around mid-week, as could be expected, but it was nowhere to be seen during Friday's rally. Take what is on the news with a grain of salt: nearly every story is either slanted or reactionary. Better yet, learn to use their bias to make a profit off of the investors who actually buy the false narratives they are selling.  
  
***Restaurants*  
  
09. Shake Shack beats expectations, rockets up 18% on Friday**  
  
Burger joint du jour Shake Shack (SHAK $30-**$56**-$59) soared 18% on Friday after handily beating Q1 expectations and raising full-year guidance for 2018. Revenue for the quarter hit $99 million, up from $77 million in the same quarter of 2017, and net income came in at $3.5 million, versus $2.3 million for the same period last year. Financial data company FactSet Research had projected a decline in year-on-year same-store sales; instead, traffic picked up by 1.7%. Piper Jaffray hiked its target price on SHAK from $44 to $62 per share.  
  
***East & Southeast Asia*  
  
08. Pentagon bans the sale of Chinese cellphones on military installations**  
  
In an effort to step up the fight against Chinese government-sanctioned espionage targeting both the US military and American corporations, the Pentagon has banned the sale of mobile phones manufactured by ZTE Corp and Huawei Technologies, two Chinese firms. For security reasons, the Pentagon didn't get into the specific threats posed by these devices, but did verify that they presented a clear and present danger, and an "unacceptable risk." The founder of Huawei, Ren Zhengfei, is a former army officer within the People's Liberation Army and a friend of President Xi Jinping. Huawei is also under investigation for Iran sanctions violations.     
​  
***Economics: Work & Pay*  
  
07. Why a modest jobs report may be good news for the markets**  
  
The US added 164,000 new non-farm payrolls in the month of April, against a backdrop of 192,000 positions expected. While the number may seem ho-hum, it may signal many positive outcomes, especially when you dive a little deeper into the report. In the first place, the US unemployment rate ticked down to 3.9%—the lowest level since 2000. The all-important U-6 number, which includes discouraged workers who have left the workforce, dropped to 7.8%, the lowest rate since 2001. Not only will the Fed consider the jobs growth number for the month as it tweaks its rate-hike trajectory, it will also look at inflation with respect to hourly wages. The hourly earnings number for April rose by just 4 cents, which equals a 2.6% annual gain in pay. That is down a bit from March, and should ease Fed concerns about inflation. The services industry, followed by manufacturing and health care, reported the most new hires for the month. Is a June rate hike still a "go"? Probably. But the trajectory for hikes going forward may have just flattened out a bit, which the markets should celebrate.   
  
***E-Commerce*  
  
06. Walmart notches major win against rival Amazon in Flipkart deal**  
  
Few would argue the fact that India is in line to become—economically speaking—the next China. With nearly 1.4 billion citizens and a democratic government which is undertaking major economic reforms, the Indian market holds unfathomable potential. Within India there is a company called Flipkart. This company is to India what Alibaba (BABA) is to China, or Amazon (AMZN) is to the United States. And [Penn Global Leaders Club](http://www.pennwealthreport.com/the-penn-portfolios.html) member Walmart (WMT $73-**$86**-$110) just got the green light to buy 75% of the firm, with Amazon being shunned in the process. Walmart has been working closely with Flipkart executives for the past several years, earning their trust and respect. Amazon rode in recently with an offer to buy the entire company *and* pay a $2 billion breakup fee. If reports are correct, the board stood by their friends at Walmart. Japan's SoftBank (controlling owners of telecom firm Sprint) will reportedly sell their 20% stake in Flipkart to allow the deal to go through. Another Amazon competitor, Alphabet (GOOG), will likely participate in the deal with Walmart. This was a huge win for the Arkansas-based retail giant.   
  
***Aerospace & Defense*  
  
05. Dynetics beats out General Atomics to win new DARPA contract for unmanned aerial vehicle system**  
  
The famed Defense Advanced Research Projects Agency (DARPA) wants a new unmanned aerial vehicle capable of being launched *and recovered* from a military cargo aircraft, and it has selected Dynetics, Inc. as the primary contractor. While Dynetics is not publicly traded, its partner in the deal, Kratos Defense & Security Solutions, Inc. (KTOS $8-**$10**-$14), has been one of our favorite trading stocks in the aerospace and defense arena. Dynetics is the lead company for the program, but Kratos will build and supply the actual vehicles, and be integrally involved with all phases of testing. The Gremlins vehicles will be able to carry a variety of payloads and are designed to launch in waves from US Air Force cargo aircraft. Remarkably, they are also designed to be recovered in flight from these same aircraft. Dynetics beat out General Atomics Aeronautical Systems in the phase III competition for the program.   
  
***Internet Software & Services*  
  
04. Snap plummets 22% after big revenue miss, analyst downgrades**  
  
The last time we mentioned Snapchat parent company Snap (SNAP $11-**$11**-$24), the stock was in the midst of falling to $17 per share after Kylie Jenner's disparaging comments on the app's redesign. That price is looking pretty good right now. SNAP fell another 22%—to a 52-week low of $11 per share—after revenue growth failed to meet analysts' expectations. While the company's net loss did narrow from the same quarter last year (-$386 million versus 2017's Q1 loss of $2.2 billion), analysts rushed in en masse to downgrade the company. Evercore cut its price target to $9 per share, while Morgan Stanley dropped their target price to $8 per share. Gutsy bargain hunters, this may be your chance: a return to SNAP's 52-week high would represent a 100% gain for investors.  
  
***Capital Markets*  
  
03. AllianceBernstein says sayonara to high-cost New York, packs bags for Nashville**  
  
For over two generations, asset management firm AllianceBernstein (AB $20-**$27**-$28) has called New York its home. Now, citing the high cost of doing business in the city, it is packing up and moving—lock, stock, and barrel—to Nashville, Tennessee. In an open memo to employees, in fact, management cited Nashville's lower state, city, and property taxes as a major reason for the move. Other reasons cited were the shorter commute to work, and the large pool of talent in the area. Thanks to technology, more and more financial firms have been able to escape the shackles of the major metropolitan centers, heading for greener pastures and healthier bottom lines.  
  
***Monetary Policy*  
  
02. Fed holds rates steady at 1.75% but still indicates more hikes to come**  
  
As expected, the Federal Reserve did not raise the benchmark rate to 2% at Wednesday's meeting, but we should still look for two more rate hikes this year—barring any disaster between now and the June meeting. Inflation, over any other metric, seems to be what members are keeping their eyes on, as once it gets out of control it becomes very hard to contain. And that metric just hit the Fed's 2% target in March. There is an argument as to whether or not the "Amazon effect" is keeping inflation muted. The theory behind that thinking is that Amazon has created such a competitive environment in the retail marketplace other players must keep their prices low to hold their ground. That is an untested theory, and one we don't really buy. The US economy is enormous, even by Amazon's standards. The real question is how the stock market will react to a 2% benchmark rate when it comes this summer.  
  
***Computers & Peripherals*  
  
01. Apple posts strong quarter, authorizes $100 billion of stock repurchases**  
  
Just about any way you slice it, Apple (AAPL $142--**$169**—184) had a great quarter—befuddling many naysayers. The company's Q2 revenues rose 16% year-over-year, to $61.1 billion, and earnings were up 30% from the same quarter last year. Some of the strongest areas included the firm's services business (up 31%); the "other" category, which includes the Apple Watch and headphones (up 38%), and sales in China and Japan (up 21% and 22%, respectively). The company rewarded investors by pumping up the stock's dividend by 16%—to $0.73 per share—and authorizing a $100 billion stock buyback program. For those who don't already own the stock, $169 seems like a great entry point to us.

***Headlines for the Week of 15—21 Apr 2018***

***Cuba has a new leader; which means absolutely squat...***



*Licensed: Osmani Simanca, Brazil*

***Internet Software & Services*  
  
20. Facebook's blowout results help push markets higher**  
  
What great timing for a stellar earnings report from Facebook (FB $144-**$176**-%195). Shares of the social media stalwart rose 10% on Thursday following first quarter's metrics, to include: a 50% spike in ad revenues, a 49% jump in revenue, and plans for an additional $9 billion (on top of the $6 billion already in the works) worth of stock buybacks. Perhaps most impressive, considering the first quarter saw the social media hashtag campaign to persuade users to close their accounts, monthly active users rose by 13% from the same quarter last year—to 2.2 billion. The share price crater left after the Cambridge Analytica narrative was pushed by the press in March has been completely re-filled.  
  
***Market Risk Management*  
  
19. Yes, the stock market can survive a 3.25% 10-year, but expect certain segments to get hit**  
  
It has been a rough decade for fixed-income investors. Where they once found 7% AA-rated bonds, 5% tax-free munis, and 4% money market rates with ease, they now take undue risks (which many don't even realize) in corners of the equity market they wouldn't have considered before the financial crisis. In a search for yield (after all, many fixed income investors *live on* the income generated from their portfolio), a flood of money has been pumped into real estate investment trusts (REITs), utilities, master limited partnerships (MLPs), and high-yielding equities to fill the income void left by falling rates. ​There is a lot of news right now surrounding the 10-year Treasury's upward push to a 3% yield—a level not seen since 2014. With the constant fear-mongering about the stock market within the financial press, we can expect a lot of investors to jump ship when rates get back to a palatable level. The concern shouldn't be whether or not a 3.25% 10-year will seize up business lending (it won't); the real concern is which investments will be jettisoned as yield-hounds run for the exits. For Penn Wealth clients, this will be the focus of our Spring, 2018 Portfolio Reviews. For others, take a look at your own holdings and define which positions hold the most risk for a rising rate environment.   
 ***Global Trade*  
  
18. White House targeting framework of new NAFTA deal to be completed within weeks**  
  
According to reports coming out of the Hill, the Trump Administration believes it is within reach of a new NAFTA deal which will level the playing field between the United States and its neighbors to the north and south. US Trade Representative Robert Lighthizer, who has experience hammering out such deals going back to the Reagan Administration and its negotiations with Japan, told several lawmakers that the talks needed a few more weeks at the highest levels, then an additional few weeks to hammer out the details. As was evident to anyone willing to see the truth, the steel and aluminum tariffs were a bargaining chip to get the other sides' attention, both with respect to NAFTA and other trade deals being negotiated around the world.   
  
***Textiles, Apparel, & Luxury Goods*  
  
17. Skechers loses nearly one-third of its value in a matter of hours**  
  
I will always remember reading famed Fidelity fund manager Peter Lynch's classic book, *One Up on Wall Street*, back in the 1980s. One particular concept stuck in my mind: forget the analysts' reports for a moment, and listen to what your gut is telling you; try to actually visit a location operated by the company and get a sense for what is really going on. I thought of that book as I was visiting—for the first time ever—a Skechers (SKX $23-**$30**-$43) retail store last weekend. I was drawn to the company by their slick advertising, specifically the commercials showing popular sports figures wearing the shoemaker's semi-casual sneakers. What a disappointment the store turned out to be. The place looked like a dump (despite the huge overhead they had to be paying for the property), I received no offer of assistance, and of the shoes I liked they had no stock in my (very common) size. In one of those "why didn't I short the stock" moments, I noticed SKX plummeting by nearly 30% on Friday after the company issued dour expectations for the second quarter. Here's how the CFO, John Vandemore, responded: "We continue to invest in our global capabilities and remain poised to capitalize on consumer trends." Uh, John, good buddy, since when is the consumer trend the desire to walk in a store that looks like a Sears outlet from the 1970s?   
  
***Media Malpractice*  
  
16. Bloomberg's warped take on global trade**  
  
Above the chyron reading "TRUMP'S TRADE POLICIES DEFLATING OPTIMISM," Bloomberg News ran a litany of soundbites from global financial high-brows lamenting the potential trade war the president has foisted upon the world. This truly is some of the most one-sided and slanted reporting I have seen. Nowhere in the biased piece was the trade imbalance mentioned, or the onerous tariffs slapped on American goods by the countries represented in the report. The false narrative being shoved down viewers' throats was that these poor—but brilliant—representatives from around the world are pure as the wind-driven snow; they only want what is best for humanity, but they are being attacked by the schoolyard bully in Washington. I do not remember one story over the past ten years delving into solutions to counter unfair trade practices and intellectual property theft by the communist Chinese. Sick, one-sided, and warped reporting. Brought to you by the same "professionals" who told us the markets would collapse were Trump to be elected president (which they guaranteed us would *not* happen).   
  
***Aerospace & Defense*  
  
15. NASA's planet-hunting satellite launches atop SpaceX Falcon 9**  
  
Exoplanet: a planet which orbits a star outside of our solar system. The first scientific discovery of an exoplanet was in 1988; to date, astronomers have confirmed 3,758 such bodies. With Wednesday's launch from Cape Canaveral of the Transiting Exoplanet Survey Satellite, or TESS, that number should become prolifically higher in short order. Launched atop the stalwart workhorse **SpaceX** Falcon 9, TESS will search out worlds surrounding suns nearest our own, taking over for the aging Kepler space telescope, which was launched back in 2009. The planet explorer will have an unusual orbit: after a close flyby of the moon (which is 238,900 miles from the earth), TESS will settle into its highly-elliptical orbit, traveling as close as 67,000 miles from earth, and as far away as 232,000 miles. The satellite's ultimate, strategic mission is to identify planets whose atmosphere and distance from their own star (the Goldilocks zone) indicates the potential to sustain human life. TESS was built by [Penn New Frontier Fund](https://www.pennwealthreport.com/the-penn-portfolios.html) member **Orbital ATK** (OA $94-**$133-**$135).   
  
***Leisure Equipment & Products*  
  
14. Beaten and bloodied Mattel will get a new CEO (again)**  
  
In January of 2015, we told readers that Mattel's (MAT $13-**$13**-$26) CEO was resigning after a 60% drop in fourth-quarter (2014) earnings. At the time, shares were sitting down around $30 per share, but we weren't biting. In January of 2017, we reported that Mattel saw their global sales fall by 8% in the fourth quarter (2016), forcing out the new CEO. Now, in April of 2018, we can report that new CEO Margo Georgiadis is leaving the firm after a bad—you guessed it—fourth quarter.  
  
​Mattel stole Georgiadis, who will become the new CEO of Ancestry.com, away from Silicon Valley in hopes that she could bring the toymaker into the digital age. She couldn't. Now, with their fourth CEO in as many years, the company sits at $13 per share, a shell of its former self.  
  
The loss of the famed Disney line (Mattel was an original sponsor of The Mickey Mouse Club back in 1955) to Hasbro in 2016 certainly hastened the company's demise, but it has been a rudderless ship for a number of years. Perhaps 53-year-old Ynon Kreiz, who was selected this week to be the new chief executive, can provide the leadership needed to navigate Mattel to safer waters. Or perhaps rival Hasbro (HAS) is willing to make a new offer for its old rival.  
  
***Restaurants*  
  
13. McDonald's to open 200 restaurants in Nordic region, begin home delivery service**  
  
*Penn Global Leaders Club* member McDonald's (MCD $132-**$160**-$179) announced a major expansion push for the Nordic region, with 200 new restaurants in the planning stages and home delivery ready to rollout this year in Sweden, Finland, Norway, and Denmark. The company currently serves 150 million customers per year from the existing 430 locations in the region. The expansion plans come on the heels of booming growth for McDonald's in Northern Europe, brought about by the company's dynamic CEO, Briton Jeff Easterbrook. More than 5,000 jobs will be created thanks to the new store openings.  
  
***Aerospace & Defense*  
  
12. Lockheed Martin secures enormous contract from the Pentagon to build hypersonic weapon system**  
  
Does stealth really matter when your weapon can strike its target before the enemy even knows it is coming? That is the foundational question for a new missile system, known as the Hypersonic Conventional Strike Weapon, being developed by Lockheed Martin (LMT $266-**$353**-$363). The system got a huge boost this week as the US Air Force awarded the company $928 million to design, develop, and demonstrate the cruise missile. The ability to travel at hypersonic speeds—at least five times the speed of sound—over long distances has become an imperative mission for the Air Force, as China and Russia work fervently to develop similar systems. Under the terms of the contract, the weapon must have the ability to be launched from Air Force fighters and bombers, and will have the capability to achieve altitudes in excess of 70,000 feet. The contract is somewhat of a slap in the face to Boeing (BA), which developed the prototype X-51A Waverider hypersonic test vehicle back in 2010.   
  
***Global Strategy: Latin America*  
  
11. The first non-Castro in six decades is taking power in Cuba; and this means absolutely nada**  
  
1959. Fifty-nine years ago this year. Thug communist dictator Fidel Castro takes command in Cuba. It is hard to believe it has been that long ago; or that it has been a full ten years since his hapless brother, Raul, took over for him. Now, for the first time since JFK was in office, Cuba will get a non-Castro as its el presidente. But does that really mean anything to the poor (literally) people of Cuba? Nope.  Miguel Diaz-Canel is cut from the same cloth as his two predecessors, though from a duller section of the fabric. It would be nice to think that Diaz is more of a Nicolas Maduro, the soon-to-be-deposed thug who took over from Hugo Chavez in Venezuela, but it probably isn't that simple. Leftists around the world have a love affair with the island that resides just 105 miles from the coast of Florida, and the steady stream of tourist pesos will probably keep the communist regime afloat for the foreseeable future. At least the women of the country still have the rice cookers Fidel gave them on International Women's Day back in 2005.

***An uncanny resemblance to King George III...***



*Licensed: Rick McKee, The Augusta Chronicle, GA*

**10. A fitting day to review the fiscal state of our union**  
  
As millions of US taxpayers head to the post office or hit the "enter" button on their computers to file their 2017 returns today, we thought it would be a fitting day to offer a snapshot of the fiscal state of our union. As of today, the US government has racked up a $21.14 trillion national debt. In other words, our elected officials have spent $21 trillion more than they have taken from us. If all taxpaying US citizens wanted to chip in and pay off that debt, it would cost each of us $174,189. In 2017, the federal government took $3.328 trillion from its citizens. It spent $4.068 trillion. Seven cents of every dollar the US government took in last year via taxation went to pay interest on the national debt, akin to the interest we pay the credit card companies for our outstanding balances. Of course, none of the hard-earned income offered up to the federal government should be confused with the $570 billion we pay in property taxes each year, or the near-10% sales tax we pay on goods and services purchased, or the average 48.8 cents *per gallon* gasoline tax, or any of the myriad of other fees and taxes we pay to differing levels of government. At least we can go to sleep tonight with the comfort of knowing just how efficiently our monetary sacrifices are being used.  
  
***Market Pulse*  
  
09. An unusually smooth start to the trading week**  
  
Don't look now (we don't want to jinx it), but all three major averages just turned positive for the year. Few trading days of late have been this perfectly laid out: At open, the Dow was up around 150 points; and then, throughout the trading day, it moved up in a tranquil and methodical manner, closing 213 points in the green and going positive for the year. The more-relevant S&P 500 finished the day up 29 points, to 2,706, and the NASDAQ rocked up 125 points. Not to put a too-fine point on it, but the low-volatility rhythm of the day was impressive. Solid early-season earnings reports have helped, along with a relative quell in geopolitical flash-points. The Dow has now risen 213 points in two consecutive trading days.  
  
***E-Commerce*  
  
08. Walmart is giving its website—and its image—a much-needed makeover**  
  
We're rooting for Walmart (WMT $73-**$88**-$110) in its attempt to move boldly into the digital world. Not only because the company is one of the 40 members of the *Penn Global Leaders Club*, but also because we are tired of the dearth of competition for online juggernaut Amazon (AMZN). To that end, we cringe every time we visit and navigate the Walmart website. It sort of looks and feels like the aisles at the physical stores—cramped and unfriendly. We are thrilled to announce that this situation is about to change (at least the online part of the equation). The company has been teasing a major revamp headed to its online location this May, promising a friendlier environment and dynamic new "specialty shopping experiences." When the word "fashion" is mentioned, not many Americans think Walmart. The company is trying to change that image and attract a new demographic group of higher-end online shoppers. Marc Lore (like "story"), the brilliant executive picked up with the acquisition of Jet.com, is spearheading the new effort to make Walmart a fashion destination. Can the company pull it off? We believe they can, and they will.   
  
***Capital Markets*  
  
07. Despite big Goldman Sachs beat, shares fall**  
  
Ahh, the good ole days, when an earnings beat meant your stock went higher, and a miss sent shares lower. By all accounts, banking giant Goldman Sachs (GS $210-**$253**-$275) had a blowout quarter, beating on nearly every metric. Revenue generated from trading soared 31% year-over-year, and revenues overall spiked 25%. Earnings-per-share rose from $5.15 a year ago to $6.62 this past quarter—a 29% increase. So, why were the shares trading lower on Tuesday? A couple of reasons have been posited. First, analysts wonder whether or not this growth can be sustained. A second reason cited is that investors may be upset with the Goldman decision to hold off on stock buybacks over the next quarter, using their cash windfall on corporate growth plans instead. We're not the world's biggest GS fans, but that decision seems pretty reasonable to us.   
  
***Global Strategy: Europe*  
  
06. Brexit battle's second front: Scotland and Wales**  
  
By most accounts, the glorious victory that was Brexit has become a muddled mess. This has been due, primarily, to weak-kneed leadership in the UK, but there is another factor at work. It is important to remember that the United Kingdom is actually a compilation of different countries; namely England, Scotland, and Wales. Ireland is a unique situation, with Northern Ireland having gained some degree of autonomy through the process of devolution. We know that England voted to secede from the EU, but what about the other countries in the UK? Welsh voters did, indeed, back Brexit, but a majority of Scottish voters wanted to stay in the EU. Now, both countries are vying for increased powers once the separation is final, and they are no-doubt being egged on by the little worms which infest EU headquarters in Brussels. Now, the Supreme Court of the United Kingdom is set to rule whether some powers scheduled to return to London should, instead, be transferred to the respective governments in Edinburgh and Cardiff. Yet another roadblock designed to thwart the actual outcome of 2016's landmark vote.   
  
***Commodities*  
  
05. Why is copper falling as other commodities are on the rise? Trouble in China?**  
  
We are bullish on commodities for 2018. In fact, our commodities holding in the [Penn Dynamic Growth Strategy](https://www.pennwealthreport.com/the-penn-portfolios.html), the PowerShares DB Commodity Tracking Index (DBC $14-**$17**-$17), is already up 3.58% this year against a flat stock market. Interestingly, however, when we delve into the components which make up the commodities basket, we find copper trailing the pack by a lot: the US Copper Index is down 6.47% YTD, a 10% laggard from the basket. Why is that? China consumes roughly half of the world's annual copper supply. Traders put so much stock in the China growth story being foisted upon us by the press that they drove the price up to levels commensurate with *anticipated* demand. China's construction activity falls (remember those "ghost" cities being built?), and copper slams to earth. More evidence that the efficient market hypothesis is bunk, and that astute investors can take advantage of false narratives being pushed by journalists.  
  
***Pharmaceuticals*  
  
04. Johnson & Johnson adds fuel to rally with earnings beat**  
  
Think back to the 1980s. If you could have owned only one stock for the long haul, what would it have been? General Electric? AT&T? If we had to answer that question today, it would probably be our most persistent member of the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html), Johnson & Johnson (JNJ $121-**$132**-$148). Alex Gorsky's pharmaceutical behemoth just hit another home run in the form of the company's first-quarter earnings report. J&J notched $20 billion in sales for the first three months of the year—a 13% increase over last year, and $2.06 per share in adjusted profit—also a 13% year-over-year increase. Two big bright spots in Q1 for the $355 billion pharmaceutical company (which also happens to be the world's largest biotech firm) were blood-cancer treatments Imbruvica and Darzalex. J&J has been trimming back its medical device unit recently, and the company just received an offer of $2.1 billion for its LifeScan diabetes platform from a private-equity firm.   
  
***E-Commerce*  
  
03. Drug chains rally on news that Amazon may abandon grand health care plans**  
  
The stocks of CVS (CVS), Walgreens (WBA), and other drug retailers were having a pleasant day in the green after a rumor surfaced that Amazon (AMZN $888-**$1,438**-$1,618) was about to shelve its plans to sell drugs through its Amazon Business marketplace. The company will, instead, focus on selling more generic supplies and equipment to hospitals and clinics through its B2B Amazon Business. According to reports, the company ran up against a brick wall of industry allegiances and a labyrinth of factors unique to the health care procurement system. Sorry, Amazon, you weren't able to disrupt *this* industry like you had hoped. But you still have a captive audience for your unregulated Class I medical devices, such as enema kits and elastic bandages.   
  
***Economics*  
  
02. Retail sales jump in March on the back of auto sales, higher gas prices**  
  
US retail sales rose 0.6% in March, with a full 50% of that figure fueled by a spike in auto sales and the higher price of gasoline. The Department of Commerce report also revealed a bright quarter for internet retailers, major appliance shops, and home furnishings stores. Home improvement centers (think Home Depot and Lowe's) showed a decline, but that could have a lot to do with the extended winter being felt throughout wide swaths of the country. The increase in the sales of both autos and major home appliances is a good sign for consumer activity moving forward in 2018.   
  
***Commercial Banks*  
  
01. Bank of America reports better-than-expected revenue growth, earnings**  
  
It was a good way to start the trading week: Bank of America (BAC $22-**$30**-$33) beat expectations on both the top and bottom lines with its first-quarter earnings report, released Monday morning. Revenues came in at $23.1 billion for the first three months; a beat of $40 million and 3.8% better than the same quarter last year. Income for the quarter was an even brighter story, with the company earning 30% more ($6.9B) than the first quarter of 2017 ($5.3B). Consumer banking accounted for nearly 40% of the income figure, providing further evidence that Americans are feeling better about their economic situation—and are willing to spend.

***Headlines for the Week of 08—14 Apr 2018***

***Look out, China, Japan just discovered a massive rare-earth supply...***

***Transportation Infrastructure*  
  
08. Federal judge hands Uber a win—and organized labor a loss—in workers' status case**  
  
Let's try the common sense test on this one. Forget any political leanings you may have and answer this question: are Uber drivers independent contractors or employees of the company? Let's try it another way: could an employee of a company come into work whenever they want and take as much time off as they want?  A number of agencies and groups in left-leaning states have filed cases against the ride-hailing service, claiming that Uber drivers should be treated as employees, with all of the codified rights of employees. Now, a federal judge in Philadelphia has made a ruling: Uber does not exert enough control over its drivers to qualify them as "employees" of the company. This follows a Florida state appeals court ruling last year that came to the same conclusion. It's a crazy world out there; how refreshing to see common sense still prevail in some areas of the judicial system.   
  
***Global Strategy: East/Southeast Asia*  
  
07. Look out, China, Japan just discovered a treasure chest of rare-earth metals off its shore**  
  
Massive amounts of rare-earth materials are needed to fuel the growth of high-tech devices and the electric car revolution. Unfortunately, China has used their inordinate share of these metals to hold the rest of the world hostage. In 2010, for example, China made the price of some precious metals spike by ten times when it cut its export rate. Japan, which has been especially hard-hit by China's bullying tactics, is about to change that. The US ally has discovered a treasure-trove of precious metals—perhaps as much as 16 million tons—in its waters near the Japanese island of Minamitori, according to a new report in [nature.com](https://www.nature.com/articles/s41598-018-23948-5.pdf). Ironically, it was China's heavy-handed approach that led Japan to begin searching the area for mineral deposits. Among the critical elements discovered: yttrium, europium, terbium, and dysprosium. How important is this find for the United States? After the end of the Cold War, the US essentially gave up the ability to mine rare-earth materials. In other words, we rely on the import of these materials for 100% of our needs. 70% of those imports come from Communist China. How much of a hammer does that give China in our ongoing trade disputes?   
  
***Global Strategy: Russia*  
  
06. Russian ruble getting hammered as latest round of US sanctions take effect**  
  
Looking for a government bond to buy but unhappy with the current 10-year Treasury yield of 2.768%? You could always pick up the Russian 10-year, currently yielding 7.6%. Russian capital markets have been in free-fall since President Trump imposed the latest round of US sanctions against the country for its support of Syria's chemical-weapon-yielding regime and the recent poisoning in the UK, with this round hitting Putin's closest business allies and the global companies they run. These are real sanctions with real impact, and they are rattling the Russian economy. The ruble appears on track for its worst week since 1999, already down 12% against the dollar through Wednesday morning. Russia's central bank was just forced to cancel a ruble-denominated government bond auction due to "unfavorable conditions." Higher oil prices are the one component working in Russia's favor right now.    
  
***Aerospace & Defense*  
  
05. Northrop Grumman—not SpaceX—gets blame for failure of top-secret satellite launch**  
  
Within days of a top-secret satellite's failure to reach orbit this past January, Elon Musk's SpaceX claimed their delivery system—the Falcon 9 rocket—performed nominally (engineering-speak for "as expected").  ​This week a group of industry and government investigators came to the same conclusion, blaming the satellite's manufacturer instead. Northrop Grumman (NOC $238-**$347**-$361) built the uber-secret satellite known as Zuma, and it appears that a highly-modified device called a payload adapter failed to uncouple the satellite from the bay once in zero-gravity. Ultimately the satellite did break free, but by that time it was too late to salvage. Despite being shrouded in secrecy, it is believed that it cost as much as $3.5 billion to develop and build the Zuma.  
  
***Restaurants*  
  
04. After another rough quarter for Dave & Buster's, is the company undervalued?**  
  
Earlier in the year, after Dave & Buster's (PLAY $38-**$43**-$73) *last* less-than-stellar quarterly report, we mentioned that investors may be tempted to jump in with the company's share price sitting at a one-year low of $46; we also mentioned the reason (operating margin) that might not be a good idea. This week, after missing sales forecasts and guiding FY 2018 expected revenues lower, the share price has fallen into the "tempting" category once again. ​The company's secret recipe for future growth revolves around the launch of a proprietary virtual reality gaming system in mid-2018, and the launch of reduced-format (15,000-20,000-square-foot spaces) stores in smaller cities throughout the country. While we believe the fair value of PLAY's share price is around $60, representing a 40% upside, there are just too many things that could go wrong with management's plans, including a fickle key demographic group which may just decide to stay home and drink their craft beer while playing games on their Sony PlayStation 4 Pro.   
  
***Capital Markets*  
  
03. Investors are clipping Bill Ackman's hedge fund wings**  
  
The man who viciously attacked ADP while investing heavily in losers like JC Penney's Ron Johnson and Valeant's J. Michael Pearson is now under attack himself, as investors hit him where it hurts—his wallet. The giant sucking noise coming from Bill Ackman's Pershing Square hedge fund is the sound of money fleeing, and fleeing rapidly. Penn Wealth member Blackstone Group (BX) has been pulling money from the fund, and Jamie Dimon's JP Morgan (JPM) removed the fund from its recommended list for client capital. After so many bad bets and public confrontations, Ackman's fund has now underperformed for three straight years, and 2018 is showing little promise for a turnaround. How bad is it? About two-thirds of the cash that could have been withdrawn by the end of 2017 left the fund. That leaves little on hand for Ackman to play with. Pershing Square Holdings, Ltd. currently holds about $3.9 billion in assets, and Ackman is reportedly cutting staff and not seeking new capital from investors. ​  
  
***Computers & Peripherals*  
  
02. With new iPhone upgrade, Apple takes on battery health issue at the center of recent storm**  
  
Remember the iPhone "throttling" issue Apple (AAPL $140-**$170**-$184) faced last year? To recap: the company admitted it was purposefully slowing down older iPhones via new software updates. Apple claimed this action was taken to maintain the integrity of older phones as they tried to handle the increasingly intense multitasking required for advanced new apps and features. A small group of angry iPhone users saw it as a clear method for browbeating owners into an expensive new model upgrade. Roughly 60 individual lawsuits are pending over the issue, and Congress has called on Apple to explain. With the latest software update—iOS 11.3—which rolled out last week, the company is once again addressing the issue. iPhone users can go to the Settings feature, select "Battery," and they will find a new beta called Battery Health. Here, users will see a Maximum Capacity number which will tell them the overall health of their battery, measured in percentages. I checked my iPhone 7, and the number read 89%. Below this reading, you will also see an annotation as to whether or not your phone's battery is supporting normal performance, or if you need to schedule an appointment at your nearest Apple store. If you do need a new battery, Apple will be discounting the normal $79 price to $29 through the end of 2018. Something tells us this won't bring an end to any of the five dozen pending lawsuits. Whatever happened to torte reform?   
  
***Global Strategy: Middle East*  
  
01. Israeli F-15 Eagles purportedly strike Syrian air base following Assad's most recent chemical weapons attack**  
  
What an incredibly stupid move by Syria's hapless dictator, Bashar al-Assad. To make another chemical weapons attack on his own people, after what happened following last year's attack, was an incredible miscalculation; and one which was no doubt backed by Russia's Vladimir Putin. In response to the chemical attack, which left at least 42 dead and hundreds sickened in a rebel-held town 135 miles north of Damascus, the Israeli Air Force purportedly pounded a military base in Homs, Syria, near the ancient town of Palmyra. The attack killed over a dozen military members, including three Syrian commanders and a number of Iranians living at the base. And this is far from over. The brazen attack would have been met with condemnations followed by complete inaction in the past, but the current US administration will act. Sadly, an inept United Nations, which allowed Russia to sit with veto power on the UN Security Council (UNSC), will sit idly by after Assad's horrific attack on innocent men, women, and children.  Assad's days are numbered, and there is nothing Putin can do about that.

***Headlines for the Week of 01—07 Apr 2018***

***What the press is missing, or failing to report, about our trade with China...***



***Computers & Peripherals*  
  
12. Apple just telegraphed its major product upgrade for 2019**  
  
Remember the Mac Pro? Not the Macbook Pro, but the Mac Pro. Most people don't. You may recall the commercials a few years ago showing a cool, sleek, jet black cylinder that was "built for creativity on an epic scale." This ultra-powerful device, with its starting price of $3k (but if are truly serious, you will spend a cool $10k), was designed for the industrial-strength professional, be that person a graphic artist, engineer, or medical imaging specialist. There really haven't been many improvements to the Pro over the past few years, but Apple (AAPL $140-**$173**-$184) is signaling—according to [TechCrunch](https://techcrunch.com/2018/04/05/apples-2019-imac-pro-will-be-shaped-by-workflows/)—that a major overhaul is coming to the device next year. High-level professionals have felt left out from recent Apple upgrade cycles, and this effort represents a major push to woo them back. In fact, the company solicited major feedback from Pro users for this redesign. After a year of less-than-stellar announcements, the push back into education on one end of the spectrum, and power users on the other, should portend a dynamic year ahead for the Cupertino-based tech company. AAPL is a member of the [*Penn Global Leaders Club*](https://www.pennwealthreport.com/the-penn-portfolios.html).   
  
***Global Strategy: Latin America*  
  
11. Brazil's Supreme Court effectively ends leftist da Silva's effort to win back the presidency**  
  
In 2016, Brazil's slow-as-molasses court system received an electric shock when the country's Supreme Court ruled that any defendant who loses their first appeal can be imprisoned before filing any further appeals. That two-year-old ruling came back to haunt leftist former president Lula da Silva, as the Court rejected his efforts to remain free while appealing his graft and corruption charges—and running his campaign for re-election. Protestors were expected to take to the streets in major Brazilian cities to voice their anger at the decision, but supporters of conservative former army officer Jair Bolsonaro, who is also running for the highest office, are rallying in support of the rule of law. The 74-year-old da Silva is facing as much as 12 years behind bars.  
  
***Food Products*  
  
10. General Mills will issue debt to raise the capital for its Blue Buffalo acquisition**  
  
A little over a month ago we announced that *Penn Global Leaders Club* member General Mills (GIS $44-**$44**-$61) hammered out a deal to buy premium dog food maker Blue Buffalo. We now know how they are going to fund that transaction. The company announced that it would be issuing $6 billion worth of senior, unsecured notes to investors. If, for some reason, the merger does not go through or is terminated by late summer, General Mills will be obligated to buy the bonds back at a premium of 101 (1% above principal), plus accrued interest. No word yet on the terms of the notes offering.  
  
***Monetary Policy*  
  
09. Despite efforts to politicize the process, pick for New York Fed was a great choice**  
  
Is nothing free from politicization these days? A highly-qualified candidate, San Francisco Fed President John Williams, has been elevated to the position of New York Fed president by that organization's board of directors. Williams, with his background in economics and solid experience, should complement Fed Chairman Jerome Powell nicely. Powell's background is in finance, not economics. The selection was not without "controversy," as a certain group of politicians and activists had been calling for more diversity within the ranks of Fed governors. The important position of the Federal Reserve's vice chair, void since Stanley Fischer stepped down last October, has yet to be filled. The president played no role in the appointment of the NY fed president, but will directly appoint the next vice chair. For the record, former Fed President Janet Yellen heaped praise on the choice of Williams.  
  
***Media & Entertainment*  
  
08. Spotify just became the third-largest tech IPO, taking unusual route**  
  
Shunning the traditional IPO route, digital music streaming service Spotify began trading on the New York Stock Exchange Tuesday. By not raising funds and receiving an official IPO price (no banks underwrote the offering), the Swedish company was taking quite a risk; the risk that it would fall flat during its public debut. That was not the case. With the NYSE issuing a simple "reference price" of $132 per share for the company on Monday night, pre-trading indicated more interest than expected. When the dust settled, Spotify had its new symbol, SPOT, up and running and looking at a 17% price spike within hours.  
  
​This so-called "direct listing" means that major shareholders, like CEO Evan Spiegel, don't have the typical post-IPO lock-up period in which they cannot sell their shares, though Spiegel did say he would not sell within the first year of going public. It is estimated that the company saved tens of millions of dollars in legal fees by eschewing the big banking underwriters, like Goldman Sachs and JP Morgan, and going directly to the public. It will be very interesting to see if others follow their lead (we *so* hope they do). Spotify had over 70 million paying subscribers and 160 million monthly active users as of the end of 2017.   
  
***Market Risk Management*  
  
07. Over the past 120 quarters, this has only happened 9 times**  
  
The beauty behind asset allocation is the concept that different asset classes tend to move in different directions. Bond values, for example, typically have an inverse correlation to the general stock market. That is why you will often see bonds getting hammered when the market is on a bull run, and vice versa. Sometimes you will see both stocks and bonds rallying together, as was often the case during the Fed's long tightening cycle. Unfortunately, neither of those scenarios played out in the first quarter of 2018. Looking back over the last thirty years, or 120 full quarters, there have only been nine times in which the stock market and the bond market both posted losses. Add to this yet another relatively non-correlated asset class—real estate—getting hammered, and you have a pretty rough quarter. Let's throw commodities in the mix as well, as a general basket of raw materials fell about 1% over the first three months of the year. What did perform in the green? Gold was up slightly over 1%, and the price of oil rose, meaning we paid more at the pumps.   
  
***Municipal Bonds*  
  
06. What is behind the rally in Puerto Rican bonds in default?**  
  
When I worked at a regional brokerage firm in the late 1990s, Puerto Rican municipal bonds were all the rage. For munis to be triple-tax-free, investors had to select from issuers in the same state where they resided. For residents of Kansas, for example, the disadvantage was great—think of how many more revenue and general obligation bonds were issued in states like California, Texas, or New York. There was one exception to that rule: investors in any state could buy triple-tax-free municipals from Puerto Rico. It seemed almost too good to be true, and now we know why.  
  
When Puerto Rico went into default, bondholders saw the values of their debt holdings drop to around 20 cents on the dollar. A $10,000 face value bond became worth $2,000 on the secondary market. All of a sudden, however, prices on the island's largest issues have been rallying, reaching a high of 45 cents on the dollar. What is the reason for this bizarre rally on bonds in default? There have been some positive signs of life stirring as Puerto Rico emerges from its fiscal disaster. More money appears to be on hand, which should equate to more favorable treatment by creditors during the debt-restructuring talks.  
  
They need all the help they can get: 45% of the island's population lives in poverty, yet government entities were able to issue over $70 billion in debt instruments. Sounds a lot like the sub-prime loan crisis of 2008/2009—sell all of the debt you can, and then leave someone else holding the bag.   
  
***Global Trade*  
  
05. What the press refuses to acknowledge: America's bat is a lot bigger than China's**  
  
China is threatening to "use the same level of force" to hit back at the United States if the proposed tariffs on roughly $60 billion of Chinese goods actually go through, and the press has been making the most of that threat.  It reminds me of a political cartoon I saw in the Kansas City Star back in the 1980s. The cartoon depicted a fella sitting on a bus reading a paper with the headline: "Terrorists bomb, kidnap, and kill innocent civilians—US to strike back." He responds to the headline by ruminating, "*But won't that just make them mad?*" Here's the simple fact: China does not have the power to "use the same level of force," because China's bat is *seventy-five percent smaller*. It is simple mathematics. In 2016, the US allowed $462.6 billion worth of Chinese goods to be imported into the country. On the flip side, China allowed only $115.6 billion worth of US goods into their country. On top of that extremely skewed equation, add the government-enforced intellectual property theft from US companies, and the issue becomes burning-hot. So let the US swing their bat, and let the communist Chinese swing theirs, and let's see which has more force. Fortunately, the Chinese government understands this equation, and it will never let an all-out trade war occur. Sadly, the dupes in the media not only don't report this, the don't *get* it.   
  
***Automotive*  
  
04. GM ditching the monthly sales report**  
  
Back in the '90s,  automakers reported sales every ten days. Chrysler, tired of the wild gyrations this report could cause in its stock price, became the first major car company to begin reporting monthly. Now, General Motors (GM $32-**$36**-$47), whose stock price has steadily been declining since last October, is ending that custom and will begin reporting sales only after each quarter ends. The company admitted that the price volatility which often comes with the monthly sales report was one factor for the change. On an annual basis, GM's 2017 sales were off 3.3% from the prior year, and the company has been struggling in the international market—especially South Korea—as of late. At $35.76 per share and with a 4.25% dividend, the shares may look tempting, but the negative $2.60 earnings per share figure sours our appetite. As for the change from monthly to quarterly sales results, look for the other major car companies to follow GM's lead.    
  
***Automotive*  
  
03. Musk's April Fools' Day joke falls flat**  
  
To say the least, Elon Musk is a far cry from your average, ordinary, run-of-the-mill CEO. For example, could you imagine the hapless former CEO of GE, Jeffrey Immelt, tweeting that his company was going to exit the energy business; or how about Tim Cook coming out with a mea culpa stating that Windows actually is a superior operating system to the Mac OS (it's not, by the way). Those examples are akin to Elon Musk's weekend tweet in which he joked that Tesla (TSLA $245-**$252**-$390) was close to insolvency after the failure of a "last-ditch Easter Egg sale" to raise capital. Obviously, he was being irreverent.  Investors weren't laughing, however, as the share price dropped another 5% on Monday—ominously close to a new 52-week low. Let's hope he has the inside track on some really strong Q1 production numbers which are to be released this week. If that happens, $252.48 might just be a great price to open a position.    (***UPDATE:*** *Indeed, Tesla reported strong Q1 production numbers on Tuesday, driving the stock price about 6% higher, before settling back down in the $257 range.)*  
  
***REITs*  
  
02. Mall vacancies hit six-year high**  
  
Our mantra over the past year has been that the death of the retail mall has been greatly exaggerated by the press; unfortunately, news like this continues to give ammo to those who would disagree with that claim. According to commercial real estate data miner Reis, Inc., empty space in shopping centers just hit a six-year high, with the vacancy rate among major US malls hitting 8.4%. In their 02 Apr report, the firm also pointed out that the 712,000 square feet of new space completed in the first quarter was well below average, even accounting for the typical first-quarter slowdown in construction. Nearly all major retail REITs are already down double-digits thus far in 2018.   
  
***Road & Rail*  
  
01. US trucking shortage about to get worse as police enforce ELD rules**  
  
Per industry regulations, over-the-road truckers are barred from driving over 11 hours per day. On Sunday, police across the nation began enforcing those rules, assuring that big rigs traveling US highways are equipped with with DOT-certified electronic logging devices, or ELDs. An improved economy, a driver shortage, and the new enforcement push are all teaming up to drive the cost of shipping via trucks higher. In fact, spot rates for over-the-road shipping are up over 25% from the same time last year. Who will gain and who will lose from the new enforcement? All of the manufacturing companies and retailers who ship across the US will pay more. Smaller and independent trucking companies who put off installing the now-required ELDs must now pay to get in compliance. The winners will be the big trucking companies which adopted this technology years ago. Our favorites? Werner Enterprises (WERN $24-**$37**-$44) and JB Hunt Transport (JBHT $83-**$118**-$126).

***Headlines for the Week of 25—31 Mar 2018***

***Poland buys Patriot missile system from US...***



*Raytheon Iron Dome launcher. Photo Courtesy:* [*Raytheon*](https://www.raytheon.com/sites/default/files/2018-01/rms14_irondome_pic01_lg.jpg)

***Media & Entertainment*  
  
10. NFL fans, get ready for a "work stoppage"...in 2021**  
  
Sure, we know that the 2018 season is still way off in the distance, but we are ready to make a bold prediction about the ugliness which will occur three seasons beyond this fall. Right now, NFL players are working under an extended contract that will expire at the beginning of the 2021 season, and with the same floundering idiot, Roger Goodell, running the show at the start of that season, turmoil is all but guaranteed. The NFL's players' representatives have already telegraphed as much. In a Bloomberg interview, NFL Players Association Executive Director DeMaurice Smith said that players should "prepare for a work stoppage" at the start of the season. I watched the interview live, and can testify that his attitude was one of confrontation, not compromise. NFL Players Association president Eric Winston went even further. In an interview on WCPO, he made the comment that "if this thing (the NFL) dies out in 20 years, it dies out in 20 years...that's not really my concern." Well, this should work out beautifully. Agitators on one side, a bumbling fool on the other. At least we will still have college football.   
  
***Economics: Goods & Services*  
  
09. Fourth-quarter GDP revised up to 2.9%, showing US economic momentum continues to build**  
  
The US Department of Commerce revised upwards its view of the US economy in the fourth quarter of 2017, as reflected by the gross domestic product—a reading of the goods and services produced throughout the country. Instead of the 2.5% initially reported, the economy actually grew at a 2.9% annualized rate for the quarter; more in line with Q2's 3.1% and Q3's 3.2% respective growth rates. More good news coming from the report: businesses are apparently using their tax overhaul benefits to actually invest in their companies. Capital expenditures on new equipment rose by 11.6% in the quarter. So much for the theory that companies would hoard the cash savings instead of spreading the wealth to employees and on capital expenditures.  
  
***Automotive*  
  
08. Tesla shares continue to get pounded after second fatal accident, failure to hit production numbers**  
  
One month ago, electric carmaker Tesla (TSLA $252-**$258**-$390) was sitting at $350 per share. Today, shares fell another 8%—to $258—following the announcement of an NTSB investigation and the company's failure to hit production numbers. The investigation stems from the Friday morning crash in California of one of the company's coveted Model X SUVs, which left the driver dead. The SUV crashed head-on into a highway barrier, ripping the front end in two. It is unclear whether the vehicle was in autopilot mode at the time of the crash. In addition to the accident, the company also missed its targeted production numbers on its new Model 3 sedan. Tesla bondholders got hit as well, as a downgrade on the company's debt drove Tesla bonds down about 5% in value.  
  
***Aerospace & Defense*  
  
07. Poland signs $4.7 billion missile deal with US**  
  
Poland, one of America's staunchest allies in Europe, just inked a $4.7 billion deal to buy Patriot missile systems from the US as it buttresses its defenses against the growing threat from its former master, Russia. The deal, which represents Poland's largest defense purchase in three decades, includes 16 launchers, four radar units, and the most advanced fire control system available for the Raytheon (RTN $150-**$211**-$223)-built air defense program. Eastern Europe has been on heightened alert ever since Russia took back Crimea from Ukraine in 2014. Poland, a former Warsaw Pact country, is now a member of that defunct pact's archenemy, NATO.  
  
***Global Strategy: Trade*  
  
06. Tariff victory number one: US and South Korea revise trade deal**  
  
The US has notched its first measurable victory with respect to the steel and aluminum tariffs, which were clearly meant to be a bargaining tool. South Korea has agreed to double the number of cars US automakers can export to the East Asian country without meeting the highly political "local safety standards" typically imposed on imported vehicles. South Korea also agreed to place a cap of 2.7 million tons per year on the steel it exports to the US. As for the balance of trade between the two countries, the US had a $23 billion trade deficit with South Korea in 2016; that fell to $18 billion last year—a 22% drop.  
  
***Global Strategy: Trade*  
  
05. Euro-fight: Germany wants to deal with US on tariffs, France does not**  
  
President Trump's steel and aluminum tariffs, which are currently on a moratorium, are causing a rift between the European Union's two biggest members. Right now, the EU slaps a 10% tariff on American cars entering the zone. The US places just a 2.5% tariff on European cars coming to America. When you think of how many German cars enter the US market versus French autos (do they even make real cars?), it is easy to understand the rift. While Germany's Merkel is talking with auto manufacturers on how they would feel about a reduction in the onerous 10% import tax, France believes no concessions should be made to the US. The bloc is fighting against the clock: the moratorium on steel and aluminum tariffs is set to end on 30 April.  
  
***Computers & Peripherals*  
  
04. Look out Google Chromebook, Apple wants its niche market back**  
  
Taking its Apple Event show on the road, the tech giant introduced a new line of education equipment and software Tuesday morning in Chicago, all designed to take back its classroom market share it lost to Google. Apple (AAPL $140-**$170**-$184) unveiled a new budget iPad for students, with a 9.7" screen and a $299 price tag, to directly compete with the popular Chromebook. The tablet supports the Apple Pencil and will include a set of teacher- and student-friendly education apps. "Schoolwork" will help teachers send out e-assignments and monitor progress. ClassKit is a new service which will allow developers to write new programs to work with the Schoolwork app. These tools will also be available (this summer) for the Mac line of computers. And just "one more thing"—the company also announced a new curriculum called "Everyone Can Create" designed to assist teachers with the arts; specifically music, photography, and video.   
  
***Biotechnology*  
  
03. Aimmune Therapeutics ready to launch its revolutionary (at least to us) peanut allergy therapy**  
  
Few people who do *not* have severe, life-threatening allergies can fully understand the scope of this problem. Parents worried that their allergic kids might accidentally ingest something that contains hidden amounts of the peanut protein. The swelling of the throat. The potential for anaphylactic shock leading to death. The same could be said for those suffering from shellfish, eggs, or other allergens. Now, it appears that Aimmune Therapeutics (AIMT $16-**$31**-$42), a company seeded with funds from concerned parents, is prepared to send real help. Aimmune has developed an immunotherapy capsule, the contents of which are to be sprinkled on common, non-allergic foods and digested, which will ultimately reduce the most severe reactions to the allergen. After this first successful launch, the company will work on a release for those allergic to eggs, walnuts, milk, and shellfish. AIMT came public in 2015 at $16 per share.   
  
***Specialty Retail*  
  
02. Lowe's CEO announces retirement, shares spike**  
  
If you are the CEO of a publicly-traded company and you want to know what stakeholders really think of you (not what they are telling you, Jeffrey Immelt), announce your retirement. For home improvement chain Lowe's (LOW $71-**$88**-$109), we got the answer on Monday: Robert Niblock, the firm's CEO, president, and chairman, said he was hitting the bricks, and the stock immediately rallied 6%. Over the past year, not including the "Niblock's leaving" rally, [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Home Depot (HD) is up nearly 20% while, while Lowe's was up 2%. Leadership matters.  Adios, Bob.  
  
***National Security*  
  
01. US to expel 60 Russian diplomats in response to nerve agent attack in the UK**  
  
The Trump Administration has labelled 60 Russian diplomats as spies and has ordered their immediate expulsion from the United States. This action is a direct result of Russia's poisoning of Sergei Skripal and his daughter, Yulia, last month in a small town outside London. The Russian consulate in Seattle is also being shuttered as the worldwide condemnation for Putin's despicable act ramps up. Administration officials have said that the expulsion will greatly diminish Russia's data collection and espionage capabilities in the country.

***Headlines for the Week of 18—24 Mar 2018***

***Much needed midwestern storms helping farmers, pounding prices...***



***Media & Entertainment*  
  
11. More trouble for sinking TIME magazine as 1,000 layoffs announced**  
  
There can be only so many publications repeating the same, worn-out, ubiquitous stories, all with the same slanted point of view. More evidence of that comes to us from Meredith Corp. (MDP $50-**$54**-$72), publisher of the once-proud TIME magazine. Due to plummeting circulation and massive losses, Meredith has announced the firing of 1,000 staffers at the publication. More than likely, Meredith is simply slimming down the magazine to enhance the prospects of selling the brand to another buyer. Best of luck. Meredith purchased Time, Inc. last November for $2.8 billion.    
  
***Trade Policy*  
  
10. President Trump planning tariffs on China for intellectual property theft**  
  
On Thursday, the White House will outline a new package of tariffs to be placed on China in retaliation for that country's egregious intellectual property theft over the past several decades. In essence, any company wishing to do business in the lucrative Chinese market must "agree" to a thorough dissection by government officials, who then share the intellectual property gleaned from those US companies with their Chinese competitors. While the president has advocated for tariffs on $60 billion or so worth of Chinese goods, odds are it will not get to that stage—China has a lot more to lose in a trade war than does the US. As for all of the naysayers screaming about the harm that will be done to US markets, their silence up to this point (with respect to intellectual property theft) has been deafening. Perhaps they have been busy behind their ivory towers writing peer-reviewed articles on the subject, presenting their findings at black tie cocktail parties.         
  
***Automotive*  
  
09. Musk's $2.6 billion compensation package approved by shareholders**  
  
Tesla (TSLA $250-**$317**-$390) shareholders voted Wednesday to approve CEO Elon Musk's $2.6 billion compensation package, which is tied to 12 incremental performance metrics over the next ten years. Management's projections call for a rise in Tesla market value from $55 billion to $650 billion over that timeframe. Musk currently owns about one-quarter of the firm's outstanding shares.    
  
***Monetary Policy*  
  
08. Market cheers Fed rate decision and rationale, Fed Funds Rate goes to 1.75%**  
  
We knew there weren't going to be four rate hikes this year, but the talking heads of the financial media had repeated it so many times investors bought in. That is why, after the Fed raised rates and remained on a path for three 2018 hikes, the markets went from relatively flat to up 200 points on the Dow. It really was a positive meeting: we got the expected rate hike everyone knew was coming; the Fed was very optimistic on the economy; inflation remained muted; and the three rate hike scenario was buttressed. There was an interesting takeaway for next year—comments were made about the potential need to be more aggressive in 2019 to keep inflation at bay. As for the Fed Funds Rate, it now goes to a benchmark of 1.75%, and the 10-year Treasury rose above 2.9% following the move. (***Update****: As is so typical, when the Fed chairman began to make his comments after the decision, investors zeroed in on the inflation comments and got spooked, sending the market into negative territory by close of day*.)  
  
***E-Commerce*  
  
07. Amazon just became the world's second most valuable company**  
  
While Internet search engine and services provider Alphabet (GOOG $824-**$1,096**-$1,198) has floundered (well, comparatively) this year, e-commerce giant and Penn Global Leaders Club member Amazon (AMZN $834-**$1,587**-$1,618) has surged. So much so, in fact, that the latter has supplanted the former as the world's second largest company. As of Tuesday's close, Amazon's market cap was valued at $768 billion versus Alphabet's paltry $762 billion. Investors are putting a premium on Amazon based on an enormous projected growth trajectory for the company's cloud computing business, which is being used to fund other areas, such as the Whole Foods purchase and new physical stores. From a valuation standpoint, the p/e of Amazon is a whopping 258, compared to Alphabet's 61. For comparison's sake, the world's most valuable company, Apple (AAPL, $889 billion), has a p/e of just 18. It is also a member of the Global Leaders Club.   
  
***Global Strategy: Mideast*  
  
06. India identifies the bodies of 39 workers killed by Islamic State in Iraq**  
  
When I was deployed to the Middle East during the Gulf War, one thing that struck me was the large number of foreign workers, particularly Filipinos where I was at, performing blue-collar tasks such as construction work and services-related jobs. They came to mind when I read that the government of India had identified the bodies of 39 Indian construction workers who had been kidnapped in Iraq three years ago by radical Muslim terrorists. I thought about how extremely friendly those workers were, trudging through 12-hour workdays and sending nearly all of their earnings back home to support their families. I would imagine virtually all of these Indian workers were just like the Filipino men I met in that part of the world a generation ago. It wasn't enough that they were separated from loved ones, doing the work that was shunned by locals; they had to have their lives taken from them as well. Our prayers go out to the families of these Indian men, and to the families of the thousands still missing in Iraq.  
  
***Computers & Peripherals*  
  
05. With screen development, Apple is truly reaching vertical integration**  
  
One of the major challenges for mega-companies like Apple (AAPL $139-**$175**-$184) is the growing reliance on suppliers. The bigger a company gets, the more third-party moving parts to go wrong. Let's face it, if an Apple supplier problem causes a product delay, it will be Apple that gets the black eye by consumers—not a company nobody's ever heard of based in a city whose name they cannot pronounce. The Cupertino-based firm has slowly been vertically integrating their products, from making more components to owning the product/consumer experience. Now, it appears that Apple is ready to develop its own ultra-advanced screens, which is bad news for screen suppliers such as arch-rival Samsung. News of the new "MicroLED" screen development hit supplier stocks hard, with many down double-digits.  
  
***Specialty Retail*  
  
04. Another mall rat bites the dust**  
  
We can't say how many young girls made the trek to Claire's at their local mall to get their ears pierced, but it is safe to say that the teen jewelry company has owned that space for a generation. Now, fighting flagging sales and a huge debt load, the company is calling it quits; or, at least, calling in the bankruptcy lawyers. The company filed for Chapter 11 protection on Monday, saying it had reached an agreement with creditors to restructure its nearly $2 billion in debt. With an 8% decline in traffic from last year, the company simply could not make its debt payments, which included $183 million per year worth of interest alone. Private equity firm Apollo Global Management (APO $23-**$31**-$37) took the company private back in 2007. Unlike Toys-R-Us, however, we expect Claire's to at least buy some time with this move, avoiding a full liquidation.   
  
***Commodities: Grains*  
  
03. Wheat, corn, soybeans all get pounded as rain moves into midwest**  
  
KC hard red winter wheat futures were down about 5%—to six-week lows—as a major front pushed showers into the dry Plains region. Soybean futures also fell as weekend rains soaked dry areas of Argentina's soy belt, although a lot of the damage from drought-like conditions has already been done. Midwestern rains also put downward pressure on the price of corn, with May futures falling to $3.75 per bushel on Monday.  We own DBC, the PowerShares DB Commodity Tracking ETF in the [Penn Dynamic Growth Strategy](https://www.pennwealthreport.com/the-penn-portfolios.html).   
  
***Transportation Infrastructure*  
  
02. Uber halts autonomous vehicle testing after pedestrian death in Arizona**  
  
Following the death of a pedestrian in Tempe, Arizona who was hit by an Uber autonomous vehicle, the company has temporarily halted all testing of the units. Police in Tempe verified that, while the car was operating autonomously, there was a human safety driver behind the wheel when the accident took place. The police report has yet to be released, but we know the 49-year-old female victim was crossing the street—outside of a designated crosswalk—at roughly 10 p.m. Sunday night when struck.       
  
***Multiline Retail*  
  
01. They might as well...Macy's to roll out mobile checkout at all stores by end of year**  
  
The only thing more frustrating than wading through the mess of clothes at the Macy's ($17-**$29**-$31) stores we visit is trying to find someone to help us checkout when we do find something we want to buy. At least the company is about to do something about the latter problem. At the annual ShopTalk conference in Las Vegas on Sunday, the retailer announced that it would place mobile checkouts at all of their stores by the end of 2018. This is the way it will go down: a shopper will scan the bar codes of the items they wish to buy using their Macy's app on their smartphone, with all appropriate discounts automatically adjusting the price. When done, the shopper will head to the mobile checkout counter where an associate will remove the security tags and check that all items were scanned. The cynic in us now sees that line becoming unbearable.

***Headlines for the Week of 11—17 Mar 2018***

***SpaceX, ULA win Air Force contracts...***



*Falcon 9 first stage landing. Photo courtesy: SpaceX*

***Aerospace & Defense*  
  
10. USAF awards SpaceX, United Launch Alliance with new satellite contracts**  
  
There's a real dogfight going on in the skies between Elon Musk's SpaceX and Boeing/Lockheed's United Launch Alliance, and that is a good thing. We may not have competition from the Russians anymore (Putin's comical promise of sending a rocket to Mars aside), but you can bet that Boeing didn't expect this fierce threat from an aerospace startup a few years ago. The United States Air Force just awarded a $291 million contract to SpaceX to launch a new-generation military GPS satellite aboard a Falcon 9 by March of 2020, and a $355 million contract to ULA to launch two Air Force Space Command satellites by June of 2020. As for SpaceX, the company's lower cost per launch and proven track record of performance on government contracts was cited as the rationale for the decision.     
  
***Global Strategy: Europe*  
  
09. UK expels diplomats, freezes assets after spy poisoning**  
  
Did anyone really ever doubt that Putin's fingerprints were all over the crime? After all, he seems to have a lifelong love affair with poison. Following the attack on a former Russian spy and his daughter in a small town in England, Prime Minister Theresa May has announced the expulsion of 23 Russian diplomats and is leveling sanctions on UK-based assets of close associates of Putin. President Donald Trump has echoed the condemnation, pushing US/Russia relations back to their lowest point since the Cold War. There will never be any real negotiating with the Russian dictator, who calls for national elections only as a ruse. He has grand visions of reconstituting the Soviet Union; though he will fail, he will continue to wreak havoc along his path. And no giant red RESET button can change that.     
  
***Life Sciences Tools & Services*  
  
08. Former high-flying CEO of Theranos charged with massive fraud by SEC**  
  
She was on the cover of magazines and heralded as the new medical superstar; now, Theranos CEO Elizabeth Holmes, whose net worth was once touted at $4.5 billion, is worth zero (according to Forbes) and is being charged by the SEC with massive fraud. Holmes' blood-testing company seemed to offer a panacea: one simple blood test could predict a host of ailments from a simple drop of blood. The company had contracts with the likes of Walgreens (WBA), and the sky seemed to be the limit. Then, after one of the company's labs was uncovered for faking results, the roof caved in. The sad fact is, Holmes honestly believed in the work her company was doing, and her intelligence (she was a President's Scholar at Stanford) was never in question. The pressure to produce results, however, led the company to make the unforgivable choices. If they hadn't falsified the results and stretched the truth about a US military contract, they may not have attracted the same level of investment, but they would still be in business, and Ms. Holmes' net worth would not be zero.    
  
***Media & Entertainment*  
  
07. iHeartMedia files for bankruptcy**  
  
With its stock price sitting at 48 cents on Wednesday, iHeartMedia (IHRT) has announced it is seeking Chapter 11 bankruptcy protection. The radio network, which runs about 850 radio stations across the US, is saddled with $20 billion of debt and declining revenues. The tipping point came when it missed a $106 million interest payment last month, triggering a 30-day grace period. A subsidiary of IHRT, billboard company Clear Channel Outdoor (CCO $3-**$5**-$6), did not take part in the bankruptcy proceedings. What happens now? It appears likely that John Malone's Liberty Media, which owns 69% of Sirius XM Holdings (SIRI), will swoop in and bail the company out, adding IHRT to the Sirius family. Of course, current owners of iHeart will walk away with nothing, and bondholders with next to nothing.     
  
***Economic Policy*  
  
06. Trump to tap Reaganite Larry Kudlow as chief economic advisor**  
  
What an incredible choice. President Trump has asked CNBC commentator and former Reagan economic advisor Larry Kudlow to be his next chief economic advisor, taking over following former Goldman Sachs exec Gary Cohn's departure. In addition to being a master communicator, Kudlow favors free trade, lower taxes, and a stable dollar. His appointment has been almost universally praised; except, perhaps, by David Stockman, Ronald Reagan's whiney Director of the OMB who has been predicting doom and gloom for the past forty years. Cohn, who has a great working relationship with Kudlow, will stay on the job through March to help in the transition.    
  
***Food & Staples Retailing*  
  
05. Walmart to expand its online grocery delivery service to 100 cities by end of year**  
  
Penn Global Leaders Club member Walmart (WMT $69-**$88**-$110) announced that it would expand its home grocery delivery service to 100 cities by the end of the year, up from the current six cities. That will mean nearly 40% of the US population will have access to home delivery by the world's largest grocer within the year. Here's how it works: you, the shopper, will order Walmart groceries online; store workers will receive the order and pack the goods; the packages will be handed off to a third-party delivery company for the trip to your front door. The store has already signed a delivery agreement with Uber Technologies, but other crowdsourced companies will be added this year. This is so much better than Walmart's curbside grocery pickup service which it rolled out over the past two years. The benefit of delivery is greatly diminished if the customer must actually drive somewhere to get the goods. Great move.    
  
***Supply, Demand, & Prices*  
  
04. Inflation came in muted, and the markets love it**  
  
US consumer prices did rise in February, but less than in the prior month, and in the sweet spot from an inflationary standpoint. The consumer price index (CPI) rose 0.2% in February, following a 0.5% jump in January—remember how that spooked the markets? Excluding the two wildcards, food and energy, the numbers were precisely the same for February. For the previous twelve months, inflation is now sitting at 2.2%, which is well within the Fed's comfort zone. This put another nail in the coffin of any projected fourth rate hike for the year, which comforted investors. Futures rose about 185 points after the Commerce Department report was released.   
  
***National Security*  
  
03. Kansan Mike Pompeo will replace Rex Tillerson at State**  
  
Former Kansas Representative Mike Pompeo, currently President Donald Trump's CIA director, will be the next US Secretary of State, replacing Rex Tillerson. This is a fascinating turn of events, considering Pompeo's tough talk on China, his West Point education, and strong opposition to the (terrible) Iranian nuclear deal. Tillerson and the president have been at odds for some time, so this was not an unexpected move. While Tillerson was a highly-respected figure, turnover under a mercurial leader is always going to be high. For good or bad, controlled chaos is the Trump style. We love Pompeo as the pick, but we can virtually guarantee that China and Russia do not.   
  
***Energy Commodities*  
  
02. What does a delay in the massive Saudi Aramco IPO mean?**  
  
According to the Financial Times of London, the massive, $2 trillion Saudi Aramco IPO has been put on hold until 2019. The reason? The $2 trillion price tag. The numbers are simply staggering. The Saudi Arabian-controlled company wants to sell just 5% of itself on, more than likely, two exchanges—the domestic Tadawul exchange and a foreign exchange. New York, London, and Hong Kong appear to be the three foreign cities in the running for the ticker. Five percent of $2 trillion is $100 billion, which is what the Kingdom hopes to raise on the deal. Financial analysts are having a really tough time justifying that valuation; hence the delay. Crown Prince Mohammed bin Salman, who is in line to be the next king, needs the funds to further his massive economic reform program underway in Saudi Arabia.   
  
***Semiconductors & Equipment*  
  
01. You need a diagram to wrap your head around this potential semiconductor move**  
  
(**UPDATE**: President Trump has taken the advice of CFIUS and denied the Broadcom purchase of Qualcomm on national security grounds, so that tie-up is now out of the equation.)  
OK, let's try to paint a picture of this semiconductor showdown: Qualcomm (QCOM) wants to buy NXP Semiconductors (NXPI) for $44 billion. But that deal is on hold, as Broadcom (AVGO) is pushing a hostile takeover of Qualcomm with an offer on the table for $121 billion. But that deal is on hold as the US government reviews the acquisition on national security grounds. But now Intel (INTC) is reportedly considering a bold move to acquire Broadcom before the Qualcomm deal goes through, fearing competition from the combined entity. Whew. The semiconductor industry is on fire, and nothing proves that point more than this merger-mania. Chips will control virtually everything in the uber-connected world we are entering, and expect the big players, like [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Intel, to aggressively gobble up smaller players. Over the past few years, Intel has picked up chipmakers Altera ($16.7 billion) and Mobileye ($15.3 billion) to remain on the cutting edge of the industry. With Broadcom's $107 billion market cap, this would certainly be their biggest acquisition ever. The company is not commenting on the rumors.

***Headlines for the Week of 04—10 Mar 2018***

***McDonald's to serve fresh beef on its Quarter Pounders, roll out new premium sandwich...***



*Photo Courtesy:* [*McDonald's Corp.*](http://news.mcdonalds.com/stories/our-food-details/mcdonalds-rolls-out-fresh-beef)

***Work & Pay*  
  
16. Market spikes after outstanding jobs report**  
  
We were watching the Dow Jones Industrial Average futures when the jobs number hit: they went from negative to up over 200 points within five minutes. Against expectations for 200,000 new jobs, February non-farm payrolls spiked to 313,000—simply an outstanding number—and the previous two months' figures were strongly upgraded. Just a terrific report from virtually every aspect. Retail jobs jumped 50,000, the average workweek for employees increased, and more discouraged workers (the U6 number) entered the ranks of the employed. Unemployment dropped to its lowest rate since December, 2000. Perversely, we were concerned that the markets would react negatively to this great news, as the specter of increased rate hikes spooked investors; that did not happen this time. Perhaps three rate hikes in 2018 have already been baked into the equation.        
  
***Leisure Equipment & Products*  
  
15. It doesn't look like Toys "R" Us is coming back this time around**  
  
The plan was to declare bankruptcy and then come back after shedding some debt, as so many firms have done in the past. The plan went awry, however, and this looks to be the end of the line for iconic toy retailer Toys "R" Us. Last year, in the [Penn Wealth Report](https://www.pennwealthreport.com), we wrote a short but [scathing piece](https://hub.pennwealth.com/i/883893-2017-10-04-penn-wealth-report-vol-5-issue-02/19) about the bumbling management at Toys "R" Us, reminiscent of Radio Shack's team just before that company went out of business. It appears that any potential private equity suitors felt the same way, as the company was simply unable to find a buyer or restructure its debt with lenders. So, another big brick-and-mortar store bites the dust. But don't let them tell you it was due to online retail competition; this had everything to do with the people in the C-suite.      
  
***Global Strategy: East/Southeast Asia*  
  
14. It was American strength and resolve that forced North Korea to the bargaining table**  
  
No, we are not spiking the ball just yet, but it is absolutely more progress than has been made with respect to North Korea than at any other point in time in two generations. After placing severe pressure on the country with a strictly-enforced blockade of goods, South Korea's national security advisor made a major announcement outside the White House on Thursday: Kim Jong-un wanted to meet with President Trump, and he is open to the idea of a nuclear-free peninsula, and a continuation of US/South Korean military exercises. No, we are not going to pull a Neville Chamberlain here, but that represents a huge change from the dictator's attitude several months ago. The truth is, the American bluster and the American-enforced blockade of the country has led to an unsustainable condition in North Korea, and that has forced their hand. Will the president get any credit for this? Of course not. But who cares? A safer world is reward enough.   
  
***Health Care Information & Services*  
  
13. Cigna to acquire Express Scripts—and its debt—for $67 billion, stock drops 10%**  
  
Shortly after Thursday's opening bell, Cigna (CI $144-**$176**-$227) was busy dropping 10% while Express Scripts (ESRX $56-**$81**-$85) was jumping 12%. The reason? Cigna announced its intentions to buy the $46 billion pharmacy benefit manager (PBM) for a total transaction value of $67 billion (CI will take over ESRX's debt load and pay a hefty premium for the assets). We've never exactly had a warm and fuzzy feeling about the health insurer's CEO, David Cordani. To be quite frank, he strikes us a fast-talking, well-dressed snake oil salesman. For its part, Express Scripts probably felt pressured to do something big, considering its biggest customer—Anthem (ANTM)—did not renew their contract, instead opting to start its own PBM. Just to muddy the waters further, we reported in [February of 2017](https://www.penneconomics.com/health-care-information--services.html) that Anthem's deal to buy Cigna was halted, with a bloody battle between the two ensuing. The bottom line? This is an industry in flux, and there is too much uncertainty over Cigna's future. Add to that our perception of the CEO, and we wouldn't touch the stock, despite the general bullishness among analysts.   
  
***Restaurants*  
  
12. McDonald's announces rollout schedule for fresh (never frozen) beef, along with new premium sandwich**  
  
[Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member McDonald's (MCD $127-**$151**-$179) issued a press release outlining its rollout schedule for fresh, never frozen beef patties for its sandwiches. All Quarter Pounders and the company's Signature Crafted Recipe sandwiches will have the fresh beef, and the burgers will be cooked when you order. That immediately leads to the question of how this move will impact the unparalleled efficiency lead (and yes, we consider ourselves drive-thru experts) McDonald's has over its rivals. It will certainly present new challenges to franchisees. Ultimately, this will be another unmitigated success for CEO Steve Easterbrook. As we've said before, leadership makes all the difference. In addition to the fresh beef, McDonald's also announced a new signature sandwich: the Garlic White Cheddar, made with your choice of fresh beef, Buttermilk Crispy Chicken, or Artisan Grilled Chicken. Oh man, now we are really hungry.    
  
***Alternative Energy*  
  
11. Better late than never: GE decides to get into the energy storage business**  
  
There are so many reasons why General Electric (GE $14-**$15**-$31) went from king of the hill to nearly irrelevant, and they all swirl around a leadership vacuum. The former "biggest company in the world" has now decided that its next big thing is energy storage. To be sure, this burgeoning business will be enormous. The overarching problem with alternative energy has been storage of the energy produced, for later use. Tesla (TSLA) understood that years ago, and built the famed Gigafactory near Sparks, Nevada. They also deployed a giant battery system in Australia last year. Germany's Siemens AG (SMAWF) joined forces with US utility company AES (AES) to create what will be the world's largest battery storage unit, to be located in Long Beach, California. Now, finally, General Electric is launching GE Reservoir, a giant platform that will store massive amounts of energy generated from wind turbines and solar panels for use on-demand. Will the company become a leader in the battery storage game? Based on two previous flops—one to sell battery systems and one to create its own battery cells—we don't like their odds.   
  
***Domestic Politics*  
  
10. Cohn to resign; get ready for a wild ride on Wednesday**  
  
We knew it was a matter of time, and we figured it wouldn't be pretty for the markets after it happened, at least in the short-term. Gary Cohn has turned in his resignation as President Trump's chief economic advisor. Cohn, a former Goldman Sachs president and COO, has been at odds with the more hawkish segment of Trump's cabinet, and the steel and aluminum tariffs appear to be the final catalyst for his departure. Futures were trading down about 150 points following the news. Odds are strong the president will find an amenable (from a Wall Street standpoint) replacement for Cohn; in the meantime, look for continued choppiness.  
  
***Natural Resources*  
  
09. Ready for a T. Boone Pickens ETF?**  
  
There's an interesting new natural resources ETF on the market, and we are intrigued. One of the most knowledgeable and legendary players in the space, T. Boone Pickens, is backing the fund, with the appropriate ticker symbol BOON. The ETF, which opened at $25 per unit, zeroes in on energy and other companies which move in sync with the price of crude. The NYSE Pickens Oil Response Fund uses ICE Brent Crude Oil Futures at its benchmark, and includes exploration and production companies, refiners, and downstream sellers. We looked at the holdings, and even found a copper producer (Southern Copper Corp) in the mix! This will be an interesting fund to watch.   
  
***Medical Devices*  
  
08. Abbott Labs gets FDA approval on world's smallest heart valve**  
  
We were bummed when Abbott Labs (ABT $42-**$61**-$65) bought St. Jude Medical last year, only because St. Jude was one of our favorite medical device makers to trade. It looks like Abbott is already reaping the benefits from that acquisition. The FDA just approve the firm's 15-mm (the world's smallest) heart valve for newborn pediatric patients with heart defects. St. Jude had larger sizes of the Master Series Heart Valve on the market for older patients since 1995. Abbott is stock #1 in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html).   
  
***Aerospace & Defense*  
  
07. SpaceX marks 50th launch of Falcon 9 by placing bus-sized satellite into orbit**  
  
The launch from Complex 40 at Cape Canaveral Air Force Station was virtually flawless. Shortly after midnight, the SpaceX Falcon 9 lit up the clear night sky with its payload aboard—a Spanish-owned, US-built communications satellite the size of a bus. Ultimately, the Hispasat 30W-6 satellite will park itself in geostationary orbit, 22,000 over the equator, where it will relay video, data, and broadband signals across America and Europe for the next fifteen years or so. This marks the historic 50th successful launch for the Falcon 9, proving its reliability to private and government customers around the globe. In addition to enabling connectivity on ships and trains in the Caribbean and Mediterranean, the Hispasat 30W-6 will bring high-speed internet access to tens of thousands of people in Spain and parts of Morocco for the first time. No rest for the weary: SpaceX will launch a Falcon 9 resupply mission for the International Space Station around the first of April, followed—weather permitting—a few days later by the launch of Bangladesh's first communications satellite. At this point, it's hard to tell if Boeing (BA) and Lockheed Martin's (LMT) United Launch Alliance is looking at SpaceX through their rear-view mirror or directly out their windshield. And that is fantastic—nothing like a space race between competing American firms, especially after the disgraceful period of most of the past decade, when we were begging for rides aboard Soviet-era rockets.   
  
***Hotels, Resorts, & Cruise Lines*  
  
06. Marriott's firing of employee Roy Jones is a disgusting and cowardly act**  
  
I have always been a great defender of corporate America, which is under constant assault by those who truly dislike a free market economy.  That's why it is so sad to see weak and cowardly acts being committed by "leaders" at US corporations. Take Marriott's (MAR $86-**$136**-$149) firing of 49-year-old Roy Jones, a worker at the company's customer engagement center in Omaha.  
  
The episode which led to Jones's firing began with a screw-up by Marriott. The company (through a third-party provider) emailed a survey to rewards-program members which asked them to identify their home country. Answers included Tibet, Taiwan, and Hong Kong—areas either directly controlled by China or claimed (Taiwan) by China. As a result of the email, a Tibetan independence group thanked Marriott via Twitter for showing Tibet as a country. Jones, who said he would review several hundred tweets per shift, "liked" this particular tweet—not knowing that Tibet was an autonomous region of China.  
  
​Despite the fact that these tweets could not be seen by ordinary Chinese citizens due to the country's "iron curtain" on social media, the Shanghai Municipal Tourism Administration saw this particular one and demanded Marriott apologize and "deal with" the responsible party. The lapdogs at Marriott complied by apologizing and firing Jones. What a disgraceful and decidedly un-American act. As a veteran who fought to preserve the freedom and ideals of this country, I will remember this story every time I see a Marriott advertisement in the future.   
  
***Computers & Peripherals*  
  
05. Apple may be planning big push into the high-end headphone market**  
  
Look out Bose, Penn Global Leaders Club member Apple (AAPL $137-**$177**-$181) appears ready to make a big move into your territory. Based on the surprisingly robust sales of their AirPods (it surprised us—c'mon, white only?), the company is reportedly working on noise-canceling, over-the-ear headphones, probably to be priced at $399 or higher. The headphones would, of course, simply and wirelessly connect to your iPhone. Apple's "Other Products" segment generated over $5 billion in revenue for the latest quarter, with wearables showing a 70% gain from the same period last year. That segment has quietly become the company's fastest growing unit.   
  
***Internet Retail*  
  
04. Amazon's next target industry: banking?**  
  
Amazon (AMZN $834-**$1,524**-$1,528) is reportedly in talks with several big banks to explore the possibility of offering some type of checking account to its members. While the goal is not for Amazon to actually become a financial institution, it does want to get bank and checking accounts, complete with debit cards (of course), into the hands of the younger generation—many of whom currently don't have accounts. JP Morgan (JPM) and Capital One (COF) are two of the banks offering bids. Recall that Walmart (WMT) tried to get into the banking business (for similar reasons) over a decade ago, only to run into a brick wall of government and financial institution opposition. For that reason alone, this will be an interesting case study in who is allowed into the "club," and why. Who knew some adults didn't already have bank accounts?   
  
***Media & Entertainment*  
  
03. Rambling Oscars gets pounded as viewers continue to flee**  
  
Just as the NFL will never admit to why they are losing market share, self-adulation Hollywood awards shows will never have the courage to face up to the realities of their shrinking viewership. For the latest data point, look no further than Sunday's Oscars. The rambling, politically-infused yawner sank in the ratings, with an 18.9% household viewership rate. That represents a 16% annual drop in viewership from last year, which had lousy numbers in its own right. ABC, a Disney (DIS $96-**$104**-$116) entity, has the rights to air the Oscars through 2020.   
  
***Life Sciences Tools & Services*  
  
02. New Alzheimer's blood test could detect the disease decades before symptoms arise**  
  
While no cures or vaccines exist for Alzheimer's, a new blood test being developed could identify the disease's onset decades before an individual shows any symptoms. Last summer, researchers at Washington University in St. Louis completed a study showing that a simple blood test could identify the presence of a sticky protein, called amyloid beta, in the brain. An accumulation of these plaques in the brain is believed to be a major factor in the disease's formation and development. Two months ago, a joint Japanese/Australian team published a study about a blood test showing a 90% effectiveness rate in identifying the nefarious protein. The test uses mass spectrometry to detect the amyloid beta. The blood test would represent an enormous milestone on the road to eliminating the disease.   
  
***Global Strategy: Europe*  
  
01. It isn't quite "Brexit, part two," but Italian voters show they have had enough in anti-EU election results**  
  
You know it has to be good news when the mainstream media laments the results. In this weekend's national elections in Italy, the establishment parties were rejected, but none more than the ruling leftist Democratic Party (PD), which limped away with a humiliating 20% of the vote.  The big winner was the populist, anti-establishment, eurosceptic Five Star Movement (MS5), which shocked the world by garnering 32% of the national vote, while the right-wing Lega Nord party gained an unexpected 18% of the vote. Combine these two percentages with the votes cast for Silvio Berlusconi's center-right Forza Italia party, and EU leaders in France and Germany have reason to be shaking in their boots. The ruling coalition that will ultimately form in Italy will be no friend to the dictates coming out of Brussels.

***Headlines for the Week of 25 Feb—03 Mar 2018***

***General Mills to buy Blue Buffalo...***



*Photo Courtesy: Blue Buffalo*

***Biotechnology*  
  
08. Peanut allergy-focused biotech poised to shine after Orlando allergy meeting this weekend**  
  
Peanut allergies are a deadly-serious problem for the millions of Americans who suffer from the malady. After biotech DBV Technologies (DBVT $20-**$22**-$51) reported a failure in its peanut allergy therapy trial last year, its stock plummeted from $48 to $23 virtually overnight. Now, $2 billion competitor Aimmune Therapeutics (AIMT $16-**$34**-$42) may have struck gold with the trials of its oral biologic, AR101.  The company declared success with its latest round of trials, and will outline the details in Orlando this Sunday at the annual meeting of the American Academy of Allergy, Asthma, and Immunology. Based on their report, look for shares of AIMT to take off next week.   
  
***Consumer Finance*  
  
07. Despite rising rates, Americans are signing for a record amount of auto loans, and wait til you see the terms**  
  
According to credit monitoring service Experian, the average size of a new vehicle loan hit a record high $31,100 in the fourth quarter, with the average monthly payment for that loan hitting an all-time high of $515. For those wanting to take the less expensive route of buying a used vehicle, the numbers aren't much better. The average used auto loan taken out in the fourth quarter was nearly $20,000, with the average monthly payment sitting at $371. But that's not the worst part. Remember when you winced at making car payments for 48 months, or four whole years? The average length of a vehicle loan just rose above 69 months. That's right, in just five years and nine months that beauty is all yours; just in time to start paying the mechanic for the chronic repairs.   
  
***Trade Policy*  
  
06. President Trump announces big tariffs on steel, aluminum imports**  
  
All the bluster finally came to fruition. After meeting with the CEOs of several major American producers, President Trump announced that the US would impose a 25% duty on steel, and a 10% duty on aluminum coming into the country. While the market has been on hair-trigger alert recently, announcement of the tariffs was the catalyst for a 600-point drop in the Dow within minutes. That being said, the major indexes had been down since the open, and the Treasury yield/interest rate issue is a much bigger specter for investors. Other countries such as China and Mexico immediately threatened retaliation, but the threats are muted by the massive trade imbalance the US has with those countries; in other words, we import a lot more than we are allowed to export, thanks to other countries' protectionist trade policies. We hate tariffs, but that doesn't make the unfair trade practices of other countries any more palpable.   
  
***Global Strategy: Latin America*  
  
05. Mexican GDP getting hurt as violence around tourist destinations continue**  
  
Mexico, for all of its promise, has some pretty huge problems, and look for them to become exacerbated if leftist Andres Manuel Lopez Obrador wins the July elections. One of the biggest challenges the country faces is the inability to keep foreign tourists safe, even in the most luxurious locations. A wave of drug/gang-related attacks have left scores dead in such popular destinations as Cabo San Lucas and Cancun. Gunmen opened fire at a popular Cancun nightclub several months ago, killing five and causing a dangerous stampede. An 18-year-old from Denver was among the victims. In Tijuana, the 2017 homicide rate was 1,744—nearly double the 2016 rate. Five Mexican states were recently hit with a US State Department "do not travel" warning, the most severe issued by the department. While the candidates in the Mexican election trip over themselves blaming their neighbor to the north for a host of internal problems, the country continues to descend due to lack of leadership. As for the leftist Obrador: he is leading by double-digits in the polls.   
  
***Household Products*  
  
04. Newell Rubbermaid spiked pre-market on news that Icahn was taking a stake**  
  
Food storage product maker Newell Brands (NWL $24-**$26**-$55), maker of the iconic Rubbermaid product line, has been floundering as of late—sitting about 50% off of its 52-week high share price. Shares of the company got a 7% pop pre-market after reports that Carl Icahn had acquired a leading equity stake. With its paltry 9.92 p/e and consistent positive cash flow, this boring old company might just be a winner as we progress deeper into this volatile year. The 3.58% dividend yield doesn't hurt, either.  
  
***Work & Pay*  
  
03. Jobless claims at lowest level since 1969**  
  
Jobless claims for the week of 18-24 February came in at 210,000—representing a drop of 10,000 and a much lower level than predicted by economists. In addition to being the lowest seasonally-adjusted rate since December of 1969, the 4.1% unemployment rate also represents the best jobs figure in 17 years. The great news pounded the market at the open, as investors worried about interest rates going up quicker than expected due to the strong economy.  
  
***Application & Systems Software*  
  
02. Palo Alto Networks blows past earnings estimates**  
  
Shares of cybersecurity firm Palo Alto Networks (PANW $107-**$179**-$170) punched through their 52-week high after the company reported a lights-out fiscal second quarter. Top-line revenue rose 28% from the same quarter last year, to $542.4 million, while earnings rose to $0.97 per share—a 54% pop from last year. In addition to a big tax reform windfall for the quarter, billings were up 20% on the year as the company rolled out new security solutions. Shares were trading up about 6% on the news.   
  
***Food Products*  
  
01. Our favorite food products company is about to buy our favorite dog food company**  
  
When Blue Buffalo—our dogs' favorite brand—went public back in the summer of 2015, we were worried. While a private company can make the strategic moves it deems necessary without investors breathing down management's neck, a public company will often make missteps as they focus on what analysts think of their quarterly earnings and outlook. BUFF ($32-**$40**-$34) came out of the gate strong, shooting up 35% on the IPO. Six months later, they had lost half of their value. While its been a steady climb back since then, the company is about to get a lifeline which immediately jolted them from a $6 billion company to an $8 billion company—they are getting purchased by General Mills (GIS $50-**$55**-$61). General Mills is one of our favorite holdings in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html). Dynamic, fearless management, a strong product line, great earnings, and a 3.57% dividend yield. While the company hasn't offered pet foods for some years, it certainly has a great history in the arena—it began selling pet food products in feed stores back in the 1930s. We can't say enough good things about this deal: it will allow GIS to expand into a rapidly growing segment, while giving Blue Buffalo a $31 billion juggernaut to help market and sell its products. We call that win/win.

***Headlines for the Week of 18 Feb—24 Feb 2018***

***Recap of the week's business headlines...***

***Global Strategy: Europe*  
  
10. Bank of America latest to remain committed to the United Kingdom post Brexit vote**  
  
Whenever the lemmings make a claim following a major incident, it is always a good idea to step back and critically question their motives. Take the Brexit vote. All of the so-called experts, along with their buddies in the media, proclaimed that the UK would suffer badly for their petulant vote to leave the EU, as companies would flee for other countries like rats from a sinking ship. Well, Bank of America (BAC $22-**$32**-$33) is the latest major player to shoot a hole in that thesis. The $327 billion US-based bank just extended the lease on its London headquarters to 2032—well beyond the country's planned departure date. Wells Fargo and Deutsche Bank, Germany's largest financial institution, have also signed new leases on London properties since the Brexit vote.  
  
***Leisure Equipment & Products*  
  
09. Planet Fitness spikes after hours following strong Q4 earnings report**  
  
Mid-cap consumer cyclical Planet Fitness (PLNT $18-**$33**-$35) reported its Q4 earnings after hours on Thursday, and investors liked what they heard. Shares were trading up over 5% after-hours on news that the fitness center operator increased its revenue by 15% year-over-year, and saw same-store sales rise 11.6%. Perhaps more importantly, EBITDA increased 16%, to $51.2 million, from $44.1 million in 2016Q4. This is the company's 11th consecutive year of positive, same-store sales growth. No lunk heads!  
  
***Internet Software & Services*  
  
08. Kylie Jenner slams Snapchat, parent company's stock falls 7%**  
  
Kylie Jenner took to Twitter to slam Snapchat's (SNAP $11-**$17**-$29) redesign, and investors were apparently listening. The $21 billion social media platform was off 7% following Jenner's Twitter tirade, which read, "sooo (sic) does anyone else not open Snapchat anymore? Or is it just me...ugh this is so sad." She was referring to the app's recent redesign, and apparently she is not alone. The overwhelming response to the changes, which include muddling some features together and promoting sponsored content, has been negative. As for Kylie, who has 24 million Twitter followers by the way, the Twitter bots began attacking her immediately with links to malicious sites. Damned Russians. Snap has lost $3 billion in market cap since the changes were made.   
  
***Monetary Policy*  
  
07. The 10-year Treasury is becoming disconcertingly intertwined with market volatility**  
  
Early in Thursday's trading session, the Dow was up over 300 points. The reason? The 10-year Treasury yield pulled back from its recent four-year high of 2.92%. The day prior, when Fed minutes were released showing the central bank's belief that the economy is doing great, the 10-year yield spiked, immediately sending the Dow from plus 150 points or so to minus 166 points at the close. The value of the 10-year (which drops as the yield rises) is becoming a disturbingly accurate proxy for the stock market. That could be ominous, considering we are probably looking at three rate hikes this year and three in 2019. Will we have to go through this market tantrum with each Fed meeting? Perhaps. Right now, the Fed Funds Rate is sitting at 1.5%. Three more 25-basis-point hikes, and it will be at 2.25%. That will force the 10-year Treasury yield up above 3%. After three more hikes in 2019, it will probably be sitting near 3.5%. We consider that yield to be the flash-point for real potential carnage in the market. Hopefully, inflation will be still be deemed tame enough for Powell's Fed to stop there. Between now and then, look for a spike in volatility around each FOMC meeting—like the one on 20/21 March, when rates will likely rise once again. The bright side? We should finally be able to start picking up some better-yielding corporates.   
  
***Media & Entertainment*  
  
06. Greatly overvalued Roku comes tumbling back to earth**  
  
Streaming device-maker Roku's (ROKU $16-**$43**-$59) share price ascent has been stunning—up over 100% within the past six months. Well, at least before today. Shares came plummeting down 22% at the open (they subsequently rebounded a bit) after the Q4 earnings report disappointed with respect to sales guidance going forward. In actuality, investors have placed such a premium on this company that virtually any projection was going to disappoint. Traders can play with this stock; investors should stay away. What do we consider fair value for the company? Probably around $32 per share. But, in an inefficient, emotionally-driven market, the shares could well see $60 before they see $32.  
  
***Computers & Peripherals*  
  
05. True to Apple form, the tech giant will start dealing directly with cobalt miners for the valuable metal**  
  
It takes 5-10 grams of cobalt to make one Apple iPhone. It takes 1 ounce (34+ grams) to make a laptop. For an electric vehicle, you need 10-20 pounds of the bluish-gray metal. As one could imagine, demand is skyrocketing, and many problems immediately spring to mind. For example, a whopping 60% of the world's cobalt supply is produced from the mines of the Democratic Republic of Congo (DRC). Apple found itself in a public relations brouhaha last year after an investigation uncovered harsh working conditions and child labor problems at some of the sourced mines in the region. Apple was, in essence, a victim of circumstance, as the company's third-party vendors were the ones actually buying the cobalt in question for the parts they make. Now, Apple is looking to buy the cobalt they need directly from miners around the globe. This is a great move; not only does it help the company secure the supply it needs, it also allows them to perform due diligence on the sourcing.  
  
***Industrial Conglomerates*  
  
04. Another month, another General Electric unit bites the dust**  
  
Some of struggling General Electric's (GE $14-**$15**-$31) divestitures made sense—like the insurance business it never should have been involved with in the first place. But this one is a head scratcher. The company announced that it would sell off its industrial gas engine unit for around $2 billion. This unit makes multi-ton gas turbines that generate on-site power to industrial plants. GE has manufactured these gas engines for over 80 years. Meanwhile, the company is also selling off its overseas lighting business to a former president of GE Hungary. While its North American and commercial LED lighting businesses remains intact, rumors are swirling that they are on the chopping block as well. We wonder what founder Thomas Edison would have to say about that?  
  
***Global Strategy: East/Southeast Asia*  
  
03. South Korea's chief cryptocurrency regulator found dead at age 52**  
  
We're not saying that anything fishy went on, but it sure does stink. South Korea had been a worldwide hotbed of cryptocurrency trading until recently. North Korea has embraced the use of cryptocurrencies—as could be expected from such a nefarious regime always looking for new ways to launder money and avoid the wrath of imposed international sanctions. Trading in digital currencies like bitcoin collapsed in South Korea after its chief regulator, Jung Ki-joon, decreed that virtual currencies were not a form of legal currency. Mr. Ki-joon also promised that more draconian regulatory measures would be taken in the coming months. It was shortly after these comments that bitcoin, once trading for nearly $20,000 per "coin," crashed down below $10,000. On Sunday, 52-year-old Ki-joon was found dead at his home. Coroners at first ruled the death an apparent heart attack, but they have backed off that claim. South Korean police have opened an investigation into Jung's death.   
  
***Food & Staples Retailing*  
  
02. If you've been waiting to get Walmart shares at a cheaper price, now is your time**  
  
Shares of $310 billion [Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Walmart (WMT $69-**$95**-$110) were off about 10% in early trading—dragging the Dow down as well—after Q4 earnings disappoint. It wasn't that sales didn't still grow at America's largest retailer, it was just that they didn't grow as rapidly as they did for rival Amazon (AMZN). While comparable-store sales grew for their 14th consecutive quarter, Walmart's online sales grew at "just" 23% over the holiday quarter. That may sound impressive, but they (sales) were up 29% in the same period a year prior, and 40% over at Amazon. Here's our take: there are still some growing pains (like merchandise stocking issues) from the company's acquisition of online retailer Jet.com. Walmart will get this down to a science. In the meantime, shares are on sale.   
  
***Food & Staples Retailing*  
  
01. Grocery chain Albertsons, with its IPO still on hold, announces acquisition of remaining Rite-Aid stores**  
  
Privately-held grocer Albertsons announced that it was in advanced talks to buy the remaining 2,500 or so Rite-Aid (RAD $1-**$2**-$6) stores which were not purchased by Walgreens (WBA) in a 2017 deal. The merger, which is set to take place this summer,  will value the grocer at roughly $24 billion. That valuation is important for investors to know, as Albertsons' IPO is still in a holding pattern. The company, primarily owned by hedge fund shop Cerberus Capital Management, announced it was going public in 2015, under the symbol ABS, but the listing was postponed due to "weak market conditions" (at least that is Albertsons' story). The year prior, Albertsons had purchased iconic grocery chain Safeway, and was in the process of buying 70 A&P (Great Atlantic & Pacific Tea Company) stores. The Rite-Aid purchase, according to an Albertsons press release, will create a "food, health, and wellness leader." That may be wishful thinking—the competition in the space is fierce.

***Headlines for the Week of 11 Feb—17 Feb 2018***

***Shake Shack falls as profits tumble...***



*Photo Courtesy:* [*Shake Shack*](https://www.shakeshack.com)

***Supply, Demand, & Prices*  
  
18. Can technology really tame inflation?**  
  
If there is one trigger word for the volatility in the stock market over the past two weeks it is this: INFLATION. After all, it was the unexpectedly strong wage-growth report that immediately got investors worried that the Fed would have to take dramatic steps to tame the (inevitable) coming inflation. That led to the bond selloff as the 10-year Treasury inched nearer to 3%, and the big market drop. But there's an interesting opposing viewpoint gaining steam out there. This idea that technology is putting downward pressure on prices, altering the supply/demand dynamic, and keeping inflation at bay. Amazon (AMZN) provides a great example of this theory. In the old days (like, a decade ago), increased wages meant more consumer spending, which meant more demand, which meant higher prices. But, thanks to technology, a company like Amazon can continue to undercut the competitors, forcing them to keep prices low. And the number of industries affected by the likes of Amazon, Alibaba, and Wal-Mart (with its jet.com purchase) continue to grow, increasing the impact. But what about non-consumer segments of the economy? Technological automation has revolutionized the manufacturing sector. Not only can parts be built quicker and in more locations (reduced shipping costs), industrial robots have replaced human workers, keeping the wages/inflation spiral in check. Finally, advances in communications technology now allow a small organization to compete with much larger competitors without spending anywhere near as much. Ultimately, can technology really reduce the effects of inflation on society? Time will tell, but early results are promising. We will discuss this topic in depth in an upcoming issue of [The Penn Wealth Report](https://www.pennwealthreport.com).  
  
***Restaurants*  
  
17. Shake Shack tumbles on slowing same-store sales, expensive growth plan**  
  
Trendy burger joint Shake Shack (SHAK $30-**$38**-$47), which saw a meteoric rise in its share price straight out of the IPO gate three years ago (before plummeting back into the atmosphere), ended the day down nearly 8%. Cautious forward sales guidance was the reason for the drop, as management warned that it expects same-store sales to be flat in 2018. The company is also planning a big growth push this year, opening between 32 and 35 new restaurants in the US. This will push margins down as these restaurants get up and running, combined with the fact that the new locations probably won't see the same customer volume enjoyed by current Shake Shack locations. Where should the company be trading? With its 65 PE ratio, probably right around where it currently sits, and certainly not near its 2015 high of $97 per share.  
  
***Biotechnology*  
  
16. Notice to Clients/Members regarding Amgen's recent share buyback offer**  
  
We own biotech firm Amgen (AMGN $152-**$184**-$201) in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) (position #2 of 40). Since we purchased the company, it has risen 30%. Recently, Amgen sent out a share-buyback notice to shareholders, offering to purchase their positions at a price of not less than $175 and not more than $200. We love the fact that the company is repurchasing over 50 million of its own shares—it shows management's confidence in the company going forward, and a belief that the shares are undervalued. As for the offer, we maintain our buy opinion on the firm, with a fair value of over $200 per share, meaning we certainly wouldn't take the company up on their offer to buy our shares. (Note: *this is for informational purposes only*. For Clients of [Penn Wealth Management](http://www.pennwealth.com), no action is required; for others, consult your investment professional if you are an Amgen shareholder, as this is not a solicitation to buy or sell any position.)  
  
***Packaged Foods*  
  
15. Campbell Soup doesn't have the luxury of standing on their political soapbox while sales slide**  
  
Sometimes it appears as though Campbell Soup (CPB $44-**$46**-$64) is a political organization that just happens to also sell canned and packaged foods. The company would certainly never admit it, nor would a consumer staples analyst write about it, but a publicly-traded company which decides to be politically vocal will pay the price at the hands of consumers—and investors. Not that it was their political leanings that caused today's drop in CPB shares, or a simple continuation of the company's 27.4% one-year decline (versus the S&P's 16% gain). Today's drop had more to do with Campbell's failure to gain traction with its organic expansion strategy, as evidenced by the early-morning earnings release. Even CEO Denise Morrison admitted that "this (Q4) was a disappointing quarter," as US soup sales decreased by 7%, and adjusted gross margin was pounded by inflation and higher supply chain costs. And then there is the company's costly (they overpaid) acquisition of snack firm Snyder's-Lance for nearly $5 billion. Campbell's own market cap is now just $14 billion. One gets the sense that management is simply not focused on the right things. Maybe they should put down the New York Times and pick up an industry publication to figure out how to regain the pole position.  
  
***Beverages*  
  
14. Big soda producers beat back the inevitable by diversifying their portfolios**  
  
Shares of $191 billion beverage behemoth Coca-Cola (KO $41-**$46**-$49) were trading up about 2% after the company's Q4 earnings release. KO beat expectations both on top line revenue ($7.51B vs $7.37B) and bottom line earnings ($0.39EPS vs $0.38EPS), but both were still down from the previous year. For the entire year, Coke had net sales of $35.4 billion, which represented a 15% drop from 2016. Both Coca-Cola and arch-rival Pepsi (PEP $106-**$111**-$123) have been battling soda stagnation by investing in sports drinks and bottled water, and experimenting with new soda offerings. For example, Diet Coke just launched [four new flavors](http://www.coca-colacompany.com/stories/diet-coke-relaunch). We see the company fairly valued at its current price of $46 per share, especially considering its rather rich 44 PE ratio. After Pepsi's recent fall from $122 to $111 per share (and its 33 PE ratio), we find that company a better value.  
  
***Personal Finance*  
  
13. Inflation may be muted, but not when it comes to your auto insurance rates**  
  
Did you notice a hike in your auto insurance premiums lately, despite having no new claims? It's not you, it's your insurance company. Technically, it is your insurance company trying to cushion the blow of higher expenses. In a typical year, auto insurance rates tend to go up at the rate of inflation. This past year, however, they were up an average of 7%. There are several factors for the big rate hike, predominate among them is distracted driving, i.e. jugheads trying to text on their smartphone while they should be paying attention to the road. While there were slightly fewer deaths in America last year from traffic accidents (thanks to improved safety technology), the number of incidents rose. With more advanced systems in the vehicles, the insurance companies are shelling out more money for repairs. Sadly, we are all paying the price as the insurance companies struggle to remain profitable in an era of juvenile behavior behind the wheel.      
  
***Aerospace & Defense*  
  
12. FCC chairman backs SpaceX plan for broadband internet satellite system**  
  
Elon Musk's privately-held SpaceX has submitted regulatory filings for approval to begin deploying a space-based internet communication system, and FCC Chairman Ajit Pai is urging his committee to approve the request. The low-Earth orbit satellite constellation would provide high-speed broadband services to rural communities across America where fiber-optic lines and cell towers do not reach. SpaceX appears set to launch two of the satellites, as a test, into orbit this Saturday with the launch of its Falcon 9 rocket from Vandenberg Air Force Base. When the proposed array is approved and in service, it will ultimately have several *thousand* satellites working to provide high-speed internet to millions of Americans.   
  
***Supply, Demand, & Prices*  
  
11. Inflation effect: CPI figures made futures swing 500 points to the downside**  
  
Before the Consumer Price Index figures came in Wednesday morning, futures had been up as much as 166 points; within minutes of the CPI showing inflation swirling faster than expected, futures dropped around 350 points—a 500-plus point swing. This is a great learning experience, and further evidence that the efficient market hypothesis is bunk. Opportunities immediately arise when the market overreacts, either to the upside or the downside. The headline Consumer Price Index number, which includes food and energy, rose 0.5% in January versus the expected 0.3% jump, making the trailing twelve months' rate 2.1% versus the 1.9% expected. That isn't much above the 2% inflation target the Fed wants. Certainly, the 2.1% rate isn't high enough for the Fed to change its methodical interest rate hike trajectory. Inflation will eventually exceed what the Fed wants, but expect this game to play out in years, not months. In the meantime, take the opportunities as irrational market reactions offer them up.   
  
(Note: bullets 9 and 10 are filed for Member/Client distribution only)  
  
**Monetary Policy  
  
08. Strap in, Wednesday's inflation report could cause stir up some volatility**  
  
Considering the fact that it was the specter of inflation and rapid rate hikes that caused the start of last week's market temper tantrum, tomorrow's CPI report holds special significance. Economists are expecting the Consumer Price Index report to show a 1.9% increase in the rate of inflation, which includes food and energy. If the figure comes in hot, it could cause another downturn as investors worry about the end of easy money. It is an odd time with respect to the correlation between stock and bond prices. Typically, these two asset classes move in opposite directions, so fixed-income holdings can provide a cushion within a portfolio. Not this time around. If the CPI is anywhere near 3%, it could get rocky. (For the record, we believe inflation will remain muted in the report.)   
  
**Internet Software & Services  
  
07. Cloud-based sales and marketing platform HubSpot records its first quarterly profit**  
  
Barely a day goes by where we don't get an informational email from inbound sales and marketing platform HubSpot (HUBS $56-**$99**-$102). And the information is always useful; full of tips and ideas for building an online presence and making a name for your company. While we don't use this smaller version of Salesforce ($3.7 billion market cap versus CRM's $77.6 billion), their easygoing tactics are apparently attracting a lot of new customers—they just notched their first quarterly profit. Quarterly revenue for the subscription-oriented firm rose 39%, to $106.5 million, and earnings came in at $0.12 per share, or roughly $4.5 million. Shares were trading up after hours.    
  
**Internet Retail  
  
06. Blue Apron jumps 10% on earnings report, gives it back during the trading day**  
  
Beleaguered meal-kit delivery company Blue Apron (APRN $3-**$3**-$11) was trading up by double-digits early Tuesday morning after announcing it could break even on its EBITDA (earnings before interest, tax, depreciation, and amortization) as soon as the fourth-quarter of this year—well before analysts had expected. By market close, however, investors began to doubt that claim, and the stock finished precisely flat. After investing in a costly new distribution hub, the company is cutting marketing expenditures and will place increased focus on squeezing more out of existing customers. This might not be the best strategy, as they lost 15% of that customer base year-over-year. The company reports having just 746,000 customers right now, so perhaps building on that base might be the best use of assets.   
  
**Fiscal Policy  
  
05. US runs a surplus in the month of January (yes, you read that correctly)**  
  
We cannot say this very often, but the United States government just reported a monthly surplus. Yes, more money came into the government than was spent during the month of January, to the tune of $49 billion. Will we run a surplus for the year? Absolutely not. However, it should be noted that the Congressional Budget Office scoring methodologies don't include the increased revenue which could be brought in by a 3% per year growth rate in the US economy. All signs are pointing to the economy hitting that mark this year, and beyond.    
  
**Textiles, Apparel, & Luxury Goods  
  
04. Under Armour pops 16% after it announces a "not bad" quarter**  
  
Performance apparel maker Under Armour (UA $10-**$15**-$22) was up 16% in early trading after "not disappointing" investors with their Q4 earnings report. It has been a really tough six month spell for the former retail darling, with the company's stock falling 50% between last summer and early November. Analysts weren't expecting much from Q4, so a 2% jump in apparel revenue and a 9% jump in footwear sales was enough for the double-digit price pop. For this fiscal year, the company expects net revenue to be up by "low single-digits." If they can underpromise and over-deliver, they might just continue their climb back into the good graces of the investment community. What do we think is a fair value for the company? About $19 per share, which would represent a 22% spike from the current price.   
  
**Health Care Information & Services  
  
03. AmerisourceBergen surges after rumors of a potential Walgreens buyout**  
  
Drug distribution firm AmerisourceBergen (ABC $72-**$102**-$106) was surging to the tune of 16% in pre-market trading on rumors that Walgreens (WBA) may be interested in buying the 75% or so of the company that it doesn't already own. The move would make sense, and it would also follow the pattern of Walgreens' recent acquisition spree. Several years ago the company bought Swiss pharmaceuticals retailing firm Alliance Boots (thus becoming Walgreens Boots Alliance), and last year it closed the deal to acquire around 2,000 Rite-Aid stores. WBA is locked in mortal combat with competitor CVS Health (CVS), with both holding roughly a $70 billion market cap. AmerisourceBergen rival Cardinal Health (CAH) already has a tie-up with CVS; is a full acquisition by CVS now on the horizon?  
  
**Specialty Retail  
  
02. Barnes & Noble cuts staff, providing further evidence of its market share decay**  
  
First, let it be said that we love books and bookstores. The smell. The excitement of walking around and stumbling across new and exciting titles from various sections of the store. Flipping through the pages. Alas, melancholy can be an expensive state of mind for an investor. Take Barnes & Noble (BKS $4-**$5**-$11), the company that put Borders, B-Dalton, and Waldenbooks out of business (which, in turn, had put the mom-and-pop bookstore I used to visit as a kid out of business). After reporting dismal sales over the quite robust holiday season, the company's shares dropped another 3%. On Monday morning, an undisclosed number of employees went to work only to be told they had no job. Sadly, the company should have sold out last year or gone private when it had more suitors. At $0.30 above its 52-week low, someone may well swoop in and bail investors out, perhaps making shares spike 100% almost immediately. Odds are, however, that any investor willing to play that game of chicken already jumped in—at a 50% higher share price.  
  
**Maritime  
  
01. Nordic American Tankers gives rosy outlook for maritime industry in 2018**  
  
According to the commentary section of its fourth-quarter earnings report, shipping firm Nordic American Tankers (NAT $2-**$2**-$9) sees a sunny horizon for the industry throughout 2018. The company, which operates a fleet of 33 Suezmax oil tankers, notes that—from their perspective—the world economy is "enjoying its strongest upswing since 2010." From a revenue standpoint, the report shows that the [time charter equivalent (TCE)](https://www.penneconomics.com/financial-terms--concepts.html) for 4Q2017 was $13,800 per day per ship, up from $10,600 in 3Q2017. This metric would signify a significant increase in demand, buttressing the company's outlook for the year ahead. As for NAT as an investment, it takes nerves of steel to pull the trigger—the company's $1.97 share price represents a 77% haircut from its 52-week high of $8.68.

***Headlines for the Week of 04 Feb—10 Feb 2018***

***SpaceX makes history with the biggest operational rocket to ever be launched...***

**Computers & Peripherals  
  
11. Apple in talks with Goldman Sachs for consumer financing of iPhone X**  
  
The minute we heard rumors of flagging iPhone X sales a couple of possible reasons immediately came to mind. First, why on earth would you announce the phone at the same Apple (AAPL $131-**$160**-$180) event that you announce the new iPhone 8? Was it really so important to put out the "10" on the phone's tenth anniversary? Second, when we heard that the phone could not be paid on installments like previous devices, we figured there would be some balkers. C'mon, credit and installment payments are (sadly) the American way! In an effort to fix the second challenge, Apple is in talk with Goldman Sachs (GS) to provide funding for consumers to buy the $1,000 device, along with other products like the Apple Watch and the iPad. The benefit, at least in theory, would be that consumers would get a lower rate on a Goldman Sachs loan than they would by simply charging the iPhone X on their credit card.  
  
**Fiscal Policy  
  
10. Believe it or not, Congress cobbles together a two-year budget deal**  
  
From a market standpoint, this is huge. Congressional leaders quietly hammered out a two year budget agreement which markedly increases defense spending and raises non-defense spending by $63 billion this fiscal year and $68 billion next year. Let's go ahead and assume that the bill is not fiscally responsible, but it may take a short-term market agitator—another government shutdown—off the table for now. The bill doesn't get into immigration reform at all, however, so we can expect some ugly headlines on that front as we move into spring. If both sides of the aisle act intelligently, neither will use another government shutdown as a ploy to garner support in the November mid-terms.  
  
**Automotive  
  
09. Tesla up about 3.6% after hours on reduced cash burn**  
  
Elon Musk has had a pretty good couple of days. On Tuesday, his closely-held SpaceX successfully launched the Falcon Heavy rocket for the first time; on Wednesday his publicly-traded Tesla (TSLA $242-**$345**-$390) reported better-than-expected earnings. Revenues came in stronger than expected, at $3.29 billion, and the company's net loss of $3.04 per share was slimmer than the $3.12 expected. Tesla's rate of cash burn, arguably its greatest concern, decelerated rapidly in the quarter. Some critics expected a $1 billion loss for the quarter instead of the $236 million actual loss. This means that the company still has roughly $3 billion to $3.5 billion in cash on hand. Musk also reaffirmed the stated Model 3 production goal of 2,500 per week by the end of Q1, and 5,000 per week by the end of Q2. In Musk's own words on the conference call, "As we ramp up production of the Model 3...our quarterly operating income should turn sustainably positive at some point in 2018." If the company can actually begin to turn a profit this year, it would represent a huge shot-in-the-arm to the Tesla bulls, and may mute a few of the critics.  
  
**Maritime  
  
08. DryShips pops 24% on share buyback announcement**  
  
The headline may be a bit misleading, as maritime shipper DryShips (DRYS) has traded between $0.96 and $5,685.39 per share (yes, you read that right) over the past 52 weeks. The 24% pop, bringing the share price up to $3.54, highlights just how volatile this industry can be (DRYS is a typical-sized shipper in the industry), and also gives us a nice segue-way into our upcoming report on the industry in the next issue of [The Penn Wealth Report](https://www.pennwealthreport.com). Consider for a moment the nearly-unfathomable amount of consumer goods and commodities (including natural gas and oil) which must be transported, in any given year, from producer to consumer at various points around the world. Investors can make some nice coin on trading these shippers, but one really has to understand the nuances of the industry—probably more than any other corner of the market. In the article, we will look at some of the major players, the challenging environment ahead, and some industry trends for 2018.   
  
**Internet Software & Services  
  
07. Snap pops nearly 40% as it actually beats revenue expectations for the first time ever**  
  
OK, in fairness, we must admit that Snapchat parent Snap (SNAP $11-$19-$29) has only issued three earnings reports since going public last year, but the first few missed the mark badly. Not this time: SNAP is trading up 37% on a lofty revenue beat of $285.7 million, which reflects a 72% annual jump. While EPS is still negative, the $0.28 loss per share was better than the $0.33 loss expected. Shares of the smartphone camera app company are finally trading above their IPO price of $17, but for us poor schlubs who weren't able to get in on the IPO, the current price is still well below the $24 opening trade after going public. (Actually, we weren't interested in the stock then, and certainly aren't now, for reasons we outlined on [02 Mar 2017](https://www.penneconomics.com/internet-software--services.html).)  
  
**Aerospace & Defense  
  
06. SpaceX makes history with the launch of the biggest operational rocket ever created**  
  
History was made. The world's largest (ever) operational rocket blasted off from historic Launch Pad 39A, the site from which US astronauts began their trip to another world, and it was glorious. Elon Musk's SpaceX Falcon Heavy made its maiden voyage on Tuesday the 6th of February, 3:45 p.m. EST, ushering in a new era of manned spaceflight. This time, the Dragon capsule sitting atop the rocket didn't carry men or women—it carried a fire-red Tesla Roadster with Starman, a spacesuit-wearing mannequin, at the wheel. Starman and his set of wheels will boogie past Mars and get a fly-by of the asteroid belt before settling into a big, elliptical, long-term orbit of the sun. As for Musk and SpaceX, they are already working on a new, bigger rocket—the BFR—to launch humans back to the moon and on their first journey to Mars. The pioneering American spirit is alive and well!  
  
**Commercial Banks  
  
05. On Yellen's last day, the Fed slams Wells Fargo with much more than just a fine**  
  
What Wells Fargo (WFC $49-**$56**-$66) did to their clients, from mom-and-pop account holders to institutional investors, is quite disgusting. More specifically, what Wells Fargo did to pressure their brokers into screwing over their clients is appalling. The insult to that injury came when a cheshire cat-grinning CEO, John Stumpf, announced on the business networks that none of this was his fault, and that he was the best person to lead the company going forward. He was fired within weeks. Last Friday, on Janet Yellen's last day on the job, the Federal Reserve issued an unusually-tough penalty on the $273 billion bank: it capped its growth potential. The order, which calls for certain board members to leave and capped the banks total assets, helped precipitate a 12% drop in the share price. We had no desire to be in the stock before this decree was issued; now, any current investors should reevaluate exactly why they are holding the tainted bank in their portfolio.    
  
**Market Risk Management  
  
04. Credit Suisse is about to liquidate this exchange traded note, and investors should learn from the experience**  
  
No matter what tiny little corner of the market an investor wants to trade—or speculate—in, odds are there's an investment vehicle to facilitate those desires. Take XIV, the VelocityShares Daily Inverse VIX Short-Term ETN. Did you get that? Once you digest all of the parts to that name, you come up with a play on the lack of volatility in the markets. Certainly, the volatility index was muted in 2017, as the Dow and S&P 500 hit record after record. If an investor wanted to take advantage of that calm, he or she might have pulled the trigger on this note. And, indeed, the investment nearly doubled between summer of 2017 and January 23rd of 2018, topping out around $145 per share. Then the correction hit. As markets were busy falling over 5% between Friday and Tuesday morning, want to venture a guess what happened to XIV? Try this on for size: it was down 92.5%, to $7.60 per unit. The reasons had to do with the arcane inner workings of the vehicle which, when battle-tested for the first time, failed miserably. The bloodbath was so overwhelming that Credit Suisse announced it would liquidate the investment on February 20th. The lesson? Don't just assume that the wizards of smart, with their advanced mathematical degrees and quantitative models, know what they are doing. If you don't understand something you are invested in, it can cost you dearly.  
  
**Global Exchanges & Indexes  
  
03. Global rout shows just how correlated foreign indexes (still) are to US markets**  
  
For all the talk of China's economic ascendency (precisely like it was in the 1980s with respect to Japan), the world markets still take their marching orders from the US. Case in point: global markets plummeted on their first trading day after the big drop in US markets, despite a dearth of any bad economic news in their respective countries. Japan's Nikkei fell 4.7%—it's biggest drop since June of 2016, Hong Kong's Hang Seng fell over 5%, the Shanghai dropped 3.35%, and Europe's FTSE 100 shed 2.64%. All of this was in response to the US markets, which fell for reasons having nothing to do with the global economy. What's the point? Holding international positions is certainly wise for nearly any portfolio, but using these positions as a hedge against a US downturn is a fool's errand.  
  
**Market Pulse  
  
02. Aftershocks**  
  
Let's call them aftershocks following the earthquake. We have ended the last two trading days either up, or only slightly down following Friday and Monday's big slides, but the closing numbers don't tell the story. On Tuesday we had 1,000 point swings from one direction to the other, and Wednesday saw the Dow both down and up in excess of 300 points. Just one hour before the close, in fact, the benchmark index was up over 200 points, only to lose all of that, plus 19, by the end of trading. The market is looking for some footing, and that is fine. All of the components of a strong economy are still in place. It must be said, however, that the shift in market direction inversely coincided with the 10-year Treasury rate. The closer it gets to 3%, the more markets freak. That is of slight concern, considering there is probably nothing to stop three interest rate hikes from happening in 2018. Remember the taper tantrum thrown by the Dow in 2013 when the Fed announced it was done pumping $70 billion per month into the economy? It is possible we will see some form of that during the March meeting when Jerome Powell makes his first real mark on the Fed by hiking rates 25 basis points, or when the central bank actually starts unwinding its record $4.5 trillion balance sheet. When that happens, have a list of your favorite stocks (that you don't already own) at the ready.  
  
***Pharmaceuticals*  
  
01. Penn Member Bristol-Myers Squibb forges higher on earnings, drug trial**  
  
[Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Bristol-Myers Squib (BMY $51-**$61**-$66) was bucking the market's downward pressure in early trading as the $104 billion drugmaker reported strong earnings, and a successful late-stage cancer trial. Q4 revenues were up 10.5% (to $5.4B) from the same quarter in the previous year, with key product sales (Opdivo, Eliquis, Orencia) all gaining momentum. The company's Opdivo/Yervoy combo trial for late-state lung cancer met its primary progression-free survival (PFS) goal in a Phase 3 clinical trial. We maintain our fair value price of $75 per share on BMY. (After-hours update: BMY got caught up in the market selloff, losing its gains and falling 4% on the day; a golden buying opportunity.)s

***Headlines for the Week of 28 Jan—03 Feb 2018***

***A beautiful aircraft; unfortunately, Delta did not choose it thanks to a Boeing petition against Canada's Bombardier...***

***Work & Pay*  
  
14. The odd dynamic between jobs, wage growth, inflation, and the markets all seen in the January jobs report**  
  
It has become somewhat of a running joke that, from a market perspective, good news equals bad news and bad news equals good news. Let's apply that aphorism to today's jobs report. The US economy added 200,000 new positions in the month of January, handily beating expectations for 180,000. More importantly, the annualized gain for average hourly earnings was 2.9%—the strongest wage growth since the Great Recession. This wage growth stoked inflation fears and caused a bond selloff, leading to a spike in the 10-year Treasury yield (though its 2.84% rate is still well below historical norms). So, the great news of more job creation and higher wages, in a warped way, helped drive the Dow down 300 points in early Friday trading. We continue to argue that any pullback in the markets this year will offer sound buying opportunities to pick up some quality names for a little bit less. Which one, great holding did we add to the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) on a pullback today? Members or clients can find out by visiting the [Trading Desk](https://www.pennwealthreport.com/trading-desk.html).  
  
***Market Pulse*  
  
13. Markets post strongest start to the year since 1987, and now is a good time to reflect on that year**  
  
With January, 2018 in the bag, we can begin to gauge how the rest of the year might just look ("as goes January, so goes the year"). Of course, anything can happen in an instant to change the trajectory of the market, but here's what is in the books: The Dow ended the first month of the year up 1,430 points, or 5.8%. The S&P 500 Index ended the month up 150 points, or 5.6%. Technology stocks, as reflected by the NASDAQ, rose 508 points, or 7.4%. By any of these three measurements, the stock market is off to its best start since 1987.  
  
Yes, we remember what happened in autumn of that year—quite out of the blue, but we also remember that the right action for investors was to stay the course (based on the subsequent comeback and rally). Overall, things aren't that different now than they were in 1987 (technological advances aside). American business is growing, we have a president rebuilding the US military, the global economy looks relatively strong, and we face the usual suspects with respect to geopolitical threats. The effective Fed Funds rate would go from 6.5% in January of 1987 to about 7.5% a week before Black Monday. We expect to see about the same 100 basis point rise in rates between now and fall.  
  
​What does all this mean? It means the similarities to 31 years ago are certainly there. We should be presented with a nice respite; a good time to review our portfolios, assure we are properly allocated for our own risk tolerance, and well positioned for the events we see on the horizon.   
  
***IT Services*  
  
12. Did Icahn get what he wanted? Xerox to be bought out by Japan's Fujifilm**  
  
A few weeks ago we reported that activist investor Carl Icahn and another major shareholder were pushing for serious changes at iconic US tech company Xerox (XRX $27-**$34**-$37). Well, they got what they wished for—the company which was a breeding ground for the best and brightest tech minds in the 1970s, the company which gave us the means to interact with a computer without command lines and DOS prompts, the company which created bitmapping and the graphical user interface (GUI), has been sold...to Japanese imaging company Fujifilm. It's a sad end to such a storied firm, but one which buttresses our business mantra: regardless of the industry, companies thrive or die by strong or weak leadership. Fujifilm will own a controlling stake in the new firm, which will be rolled into the two's 60-year-old joint venture, Fuji Xerox. Didn't Don Draper handle that account?  
  
***Consumer Electronics*  
  
11. Sony ignores the Friday market bloodbath, climbs 6%**  
  
Mid-day Friday, while the Dow was busy plummeting 600 points, Japanese electronics retailer Sony (SNE $31-**$53**-$52) was punching through its 52-week high of $51.94. Why the 6% jump? In what could be called a replay of our October, 2017 comments, the company announced another surprise quarter to the upside. Sales rose 11.5% year-over-year—to $23.6 billion— and net income blew away expectations, coming in at $2.79 billion. As we reported last October, currency exchange tailwinds helped spur the growth, but the company's gaming division recorded a 26% jump in sales over the same quarter in the previous year. Sony has now sold over 76 million PlayStation 4 consoles, on pace to easily out-sell its popular PS3 model. Microsoft (MSFT) is supposedly working on a new generation console, codenamed Scorpion, to eat into PlayStation's dominant position, but we'll believe that when we see it.   
  
***Commodities*  
  
10. Jeffrey Gundlach remains bullish on commodities throughout 2018**  
  
DoubleLine founder and CEO Jeffrey Gundlach made headlines in October of 2016 by predicting a Trump victory in the upcoming elections, despite "not being a fan." Now the bond guru is weighing in on commodities. Gundlach predicts stocks will underperform in 2018 relative to commodities, specifically oil and metals. He cites growing global demand and the weak dollar, which he expects to remain anemic over the coming year or two. He has a horse in the race—the DoubleLine Strategic Commodity Fund (DBCMX) trailed the markets by about 50% last year.   
  
***Basic Materials: Chemicals*  
  
09. Scotts Miracle Gro drops double-digits on recreational marijuana news**  
  
Scotts Miracle Gro (SMG $81-**$93**-$110) was once a sleepy little agricultural name, best known for helping roses grow. Caught up in the recreational marijuana craze, the company's shares went sky-high after weed growers took to the firm's hydroponic division (SMG had purchased the Hawthorne Gardening Company to attract the business). Generally, a flat fiscal Q1 earnings report would be expected for Scotts, as it represents the off-season for ag suppliers. Analysts, however, expected the hydroponics unit to pick up the slack and cushion the figures. When that failed to manifest (SMG had a $0.92 per share loss), investors trimmed their positions, sending the stock down 14% on the day. Management blamed a regulatory "bottleneck" in California, which has issued only 1,900 cannabis licenses. Maybe Scotts can change its name to Scotts Miracle Gro Blockchain to regain its high.   
  
***Food & Staples Retailing*  
  
08. Wal-Mart will begin fining suppliers for late deliveries**  
  
While this story began circulating last summer, retail super-giant Wal-Mart (WMT $66-**$108**-$110) just informed suppliers that they will start enforcing their "on-time or pay" policy with respect to deliveries. In an "Amazonesque" move, WMT will require suppliers to deliver 85% of their goods within either a one- or two-day window, or face a 3% penalty on the late goods. For smaller suppliers, the penalty threshold will be 50%. That was the stick. As for the carrot, Wal-Mart will begin sharing their inventory data with suppliers to help expedite the re-stocking process.     
  
***Currency Trading/FOREX*  
  
07. Bitcoin falls another 12%, drops below $10,000**  
  
The grand fall of bitcoin, which began shortly after Christmas, just hit a new milestone on the way down: it dropped below $10,000. And it wasn't just bitcoin, as the trading day slammed all of the major digital currencies. While there wasn't one specific reason for today's drop, the increased regulatory environment surrounding cryptocurrencies—worldwide—has spooked many current and would-be investors. The bitcoin investment trust ETF (GBTC) has fallen from $38.05 to $17.51 within 40 days.    
  
***Market Pulse*  
  
06. What the current market pullback means...at least to date**  
  
We've had a nice little pullback in the markets over the past few days. I say nice because regular, normal, relatively mild pullbacks are healthy for the markets—like pulling weeds from a garden (you are often offered a glimpse into which stocks are most vulnerable when a real correction comes along). Let's put this in perspective. We have gone 400 days without a 5% drawdown in the major indexes. This is a new record. As of the time of this writing, the Dow is down 370 points; while this seems like a big drop, this amounts to a 1.4% loss. Even with this drop, the Dow is still above 26,000. Here is the most important question to ask when the markets are falling: what was the catalyst? The answer will typically tell you how worried you should be. The catalyst for this drop was not North Korea, a Constitutional crisis, or troubling earnings reports. Rather, the markets began to drop Monday on concerns that the Fed will tighten too quickly due to strong economic activity and inflation concerns. If the market must drop (and it must), then we really couldn't have scripted a "safer" reason for that downturn than a growing economy.   
  
***Computers & Peripherals*  
  
05. Any further pullback in Apple is a golden buying opportunity**  
  
Apple (AAPL $121-**$165**-$180) is one of those great American companies an investor could buy and hold in their portfolio for the long haul and still sleep soundly at night. The kind of company General Electric (GE) used to be. We conservatively place the current fair value of Apple at $200 per share, with years of room to grow. More than likely, it will be the first trillion dollar company (its market cap is $857 million right now). We point this out as the company finds itself in a mini-correction, down about 8% since mid-month. Critics have overblown concerns about iPhone X production cuts, a lackluster (and expensive) HomePod, and a supposed dearth in the pipeline, spooking investors. Don't buy any of it. Instead, if the company pulls back any more, buy some Apple stock.   
  
***Health Care Information & Services*  
  
04. Three massive companies join forces to search for health care solutions**  
  
When Americans hear the US government talk about tackling a problem, they generally cringe. After all, what words immediately come to mind when you hear the term "government solutions?" Bloated. Complicated. Expensive. Outdated. Inefficient. When it comes to government trying to "fix" health care, the solutions can be downright deadly. That is why we are thrilled to hear that three massive companies—JP Morgan, Amazon, and Berkshire Hathaway—are joining forces to find a free market solution to the health care challenges we face. It will be an experiment designed to increase efficiency, reduce costs, improve services, and apply technological solutions to an outdated system.  One top executive from each of the three companies—which combined employ over one million workers—will co-lead the projected. We are honestly excited to see what real-world solutions come out of the project. Interestingly, for-profit health care companies were getting hammered on the news.  
  
***Aerospace & Defense*  
  
03. Latest in aerospace drama: US Trade Commission sides with Canada's Bombardier over Boeing**  
  
Last month we reported that Delta (DAL), incensed over a Boeing (BA) complaint to the US International Trade Commission about the airline's purchase of Canadian Bombardier jets, got retribution against the US aerospace giant by purchasing European Airbus (EADSY) A321neo aircraft instead of Boeing's 737 MAX, as had been expected. As if that wasn't bad enough for Boeing, the US panel just rejected the company's complaint, finding nothing wrong with Delta's purchase from Bombardier. Ironically, Bombardier fully expected to lose the case, pushing them into a joint deal with Airbus. Now, with the two teaming up, it becomes even more imperative for Boeing to forge an alliance with—or buy outright—Brazil's Embraer.  Filing the complaint was a mistake.   
  
***Beverages*  
  
02. Dr. Pepper Snapple spikes 25% as Keurig agrees to buy the beverage giant**  
  
Dr. Pepper Snapple (DPS $83-**$120**-$127) will accept an offer to merge with privately-held Keurig Green Mountain to create a new, $11 billion, publicly-traded beverage company. DPS shot up 25% on the news. Under the terms of the deal, Keurig, which was purchased by investment firm JAB in 2016, will control 87% of the company, which will be called Keurig Dr. Pepper (sorry, Snapple) and trade under the symbol KDP. Shareholders of DPS will get a one-time special payment of $103.75 per share, and retain 13% of their prior stake. So, if you want to get an idea where KDP shares will initially trade, subtract $103.75 from the current share price of $120, leaving $16.25 or thereabouts. What do we think of this acronym-laden fizzy mess? Just that—it will be a mess. JAB is about "financial engineering," which we use as a pejorative. The private company is all about shuffling papers, making green come out for themselves in the process—not for shareholders. We wouldn't touch KDP.  
  
***Household Products*  
  
01. Colgate falls 6% following an unexpectedly weak earnings report**  
  
Up until now, Colgate-Palmolive (CL $63-**$73**-$78) had seemed to be weathering the competitive state of the consumer goods market pretty well. After all, how many people would trust putting toothpaste made in China into their mouth, or give Chinese dog food to their beloved pets? (Colgate owns Hill's Science Diet.) The $65 billion company stumbled in the fourth quarter, however, reporting lower-than-expected sales and a drop in net income. Does the share price hit present investors with a nice buying opportunity? Not really. With a 30 P/E (Procter & Gamble's is 23 and Kimberly-Clark's is 19), a 2% dividend yield, and higher raw material costs due to increasing commodity prices, we put the company's fair value around $72 per share—a buck cheaper than where it is trading after the plunge.

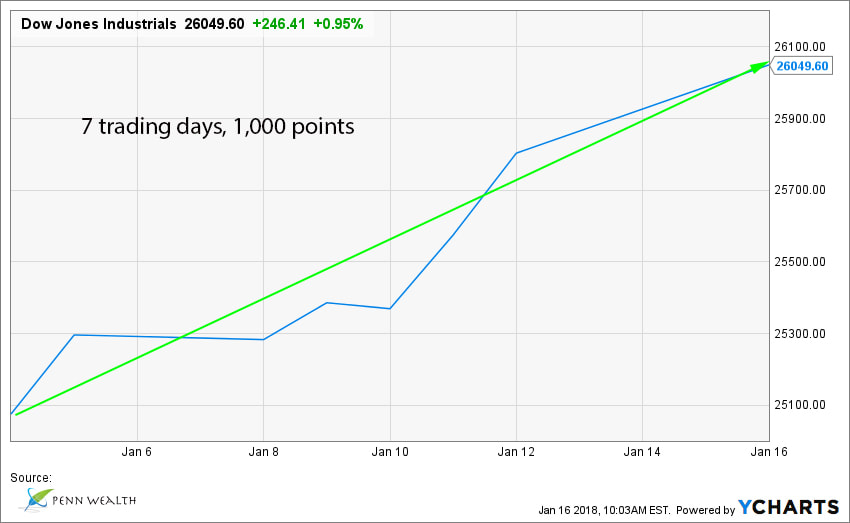
***Headlines for the Week of 21 Jan—27 Jan 2018***

***CSX investors should re-think their holding after a number of bonehead moves by management...***

***Restaurants*  
  
20. Starbucks' holiday season was flat, shares reeling after hours**  
  
Attention: any investor waiting for a pullback to get into Starbucks Corp (SBUX $53-**$59**-$65), now may be your chance. The coffee house reported flat sales for the holiday season, sending shares tumbling 5% after hours. Revenues weren't lousy, but same-store sales growth fell to its lowest level since 2009. In response, the company said it was committed to streamlining its business lines in the US, and increasing its number of locations in China. The company opened 700 new Starbucks locations in the fourth quarter of 2017, bringing the total store count to 28,040.   
  
***Housing*  
  
19. Mortgage applications jump as buyers hurry to beat rate hikes**  
  
Spring is always the busiest season for the housing market, but spring has sprung in January this year as buyers are reading the interest rate tea leaves, locking in applications before rates go up again. Mortgage applications rose 4.5% last week from the previous week, and are up 7% from one year ago—to the highest rate since April of 2010. In addition to a fear of rising rates, many would-be home buyers were left in the lurch last year due to a lack of inventory on the market. The average 30-year fixed rate is now 4.35%.  
  
***Semiconductors & Equipment*  
  
18. Penn member Intel jumps 4% after hours following earnings beat, guidance**  
  
Intel (INTC $33-**$47**-$48) shares were up around 4% after hours on Thursday following the company's Q4 earnings release. Versus the $16.35 billion expected by analysts, quarterly revenue came in hot, at $17.05 billion. Earnings per share also beat: $1.08 per share versus $0.86 expected. Revenue was up 4% for the quarter, and 6% year-over-year. Investors also applauded the rosy guidance issued by the tech giant. For fiscal year 2018, the company projects sales totaling $64 billion to $66 billion. Intel, which should punch through its 52-week high on Friday, is in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html).   
  
***Trading Desk*  
  
17. Growing more concerned with Ford's future, we slapped a stop-limit on our holding**  
  
The 5.5% dividend yield (at the time) was certainly the icing on the cake for our purchase of Ford Motor Company (F $10-**$12**-$13) last May, but a bigger catalyst was the company's firing of fluffy, pretty-boy CEO Mark Fields and the hiring of Jim Hackett for the role. Hackett had been the head of the company's self-driving car unit, and we expected some prescient and forward-thinking leadership from him, but that has yet to manifest. After the company's share price began its slide in the middle of January, we now find our holding with a 5% unrealized gain. Based on a nebulous fourth-quarter earnings call and uncertainty about the automaker's performance in 2018, we slapped a stop-limit on the company at $11.25/$10. How has GM held up since we replaced it with Ford in the Penn Global Leaders Club? It is up 32%. Ay caramba.   
  
***Trade Policy*  
  
16. President finds an odd defender with respect to new tariffs**  
  
Former Vice President Al Gore admits he doesn't find much common ground with President Trump, but he did come to his defense at Davos this week with respect to recently-announced solar panel tariffs. A little background: the Trump Administration placed hefty fees on washing machines and solar panels coming into the United States, responding to complaints filed by US companies such as Whirlpool (WHR), SolarWorld, and Sunviva. Let's leave the washing machine debate aside for now, and focus on the solar panel issue. The Chinese and South Korean governments have been heavily subsidizing makers of solar panels in those countries for the express purpose of dumping cheap panels in the US. This has been done in an attempt to knock US solar panel manufacturers out of business. We hate tariffs, but these subsidies eliminated any semblance of free and fair trade. Gore said as much in a panel discussion at the World Economic Forum in Davos, adding that "...this case did not really start with him (Trump). This was a trade action brought by private companies." The bipartisan US International Trade Commission made the recommendation, and the Trump Administration had 90 days to either implement or set aside the ruling.  
  
***Fraud, Waste, & Abuse*  
  
15. California wants to do what, now?**  
  
Just a few days ago we told readers about a plan by lawmakers in The OC (Old California, as opposed to [New California](https://www.usatoday.com/story/news/nation-now/2018/01/16/new-california-declares-independence-california-bid-become-51st-state/1036681001/)) to confiscate 50% of the tax reform "windfall" made by companies based in the state. As if that couldn't be topped, today we hear news from the state which has coffee companies steaming. Lawmakers want to force that ubiquitous "Prop 65 Warning: May cause cancer" sign on every cup of coffee sold in the state, and the likes of Starbucks (SBUX) and Keurig Green Mountain (Jab Holdings) have been fighting the case in court for the past seven years. At issue is the chemical Acrylamide, which is naturally produced during the roasting process—and during the cooking process for potato chips, bread, and the like. Californians overwhelmingly find this attempt outrageous, but what do we expect from the same cabal which banned toys in Happy Meals? (San Francisco, 2011, though the move was ultimately thrown out by a judge.) The coffee case is now in the hands of a state judge in Los Angeles. If it ever makes it up the chain to the 9th Circus Court of Appeals, forget about it—common sense will lose for sure.  
  
***Airlines*  
  
14. United Continental Holdings plummets on comments, drags competitors down as well**  
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By all accounts, United Continental's (UAL $57-**$69**-$83) earnings call was going just fine. The company announced earnings of $1.40 per share for Q4, against expectations for $1.34, and per-seat revenue rose slightly. It was the comments afterwards that spooked investors, driving the company's shares down nearly 12% on the day. United said it plans to increase its [capacity](https://www.penneconomics.com/financial-terms--concepts.html) by 4%-6% each year between now and 2020, and stop ceding ground to low-cost carriers. To a layman, that sounds great. To an industry expert, like CFRA Research analyst Jim Corridore (who immediately downgraded his "buy" rating on the stock), that meant short-term pain, a probable reduction in UAL's [passenger load factor (PLF)](https://www.penneconomics.com/financial-terms--concepts.html), and a potential price war. Every other major carrier fell in sympathy, though not near as much as United.  
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***Global Strategy: Latin America*  
  
13. Venezuela calls for early elections; spoiler: Maduro wins**  
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In a democracy (or, technically, a representative republic), the state of the economy typically sways elections one way or the other. But Venezuela is no democracy. If it were, President Nicolas Maduro would have been thrown out of office years ago. Despite the level of abject poverty among the country's citizens, the very capitalism which could free them from their economic woes is typically portrayed as a caricature villain, with the face of Uncle Sam. Against that backdrop, the autocrat Maduro has called for early national elections to take place this April. Let's go ahead and end the suspense: the socialist with a 20% approval rating among the population has a 100% chance of being reelected. It is the 21st century, not the 11th. The fact that the citizens of a nation need to live like farm animals (actually, worse) is a black mark on humanity. What do we have a United Nations for, again?  
  
***Road & Rail*  
  
12. CSX's decisions should leave investors wondering about the competence of the board**  
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Over the course of the past year, we have written quite disparagingly about CSX's (CSX $45-**$57**-$60) now-deceased CEO, Hunter Harrison. The $300 million extortion Harrison demanded—which CSX subsequently agreed to pay—to become the head of the Jacksonville-based rail, despite his serious health issues, showed a lack of rational decision-making by the board. Now that Harrison is dead (who would have seen that coming?), the CSX board is changing the company's bylaws to require the CEO to get an annual physical. What an absolute joke. As much grief as we gave Harrison, our vitriol should have been aimed at the company who was dumb enough to hire him—CSX. Furthermore, the disruption Harrison caused during his brief tenure at CSX will take years to straighten out. (For the record, we own competitor Union Pacific—UNP—in the [Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html).)  
  
***Monetary Policy*  
  
11. Jerome Powell overwhelmingly confirmed to become the 16th chairman of the Federal Reserve**  
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By a vote of 85-12 (seriously, what was going through the mind of a senator who voted "no"?), Jerome "Jay" Powell was confirmed by the senate to head the central bank of the US. Though he won't physically take the helm until Janet Yellen's term expires on 03 Feb, he already has a lot to prepare for. The Fed is in the nascent stages of unwinding its record $4.5 *trillion* balance sheet (which is a line item on the national debt), and momentum for interest rate hikes is gaining steam. For the record, we believe there will be three rate hikes in 2018, bringing the benchmark Fed Funds Rate to 2.25%. The catalyst for these hikes will be an unexpectedly high GDP and fear of inflation. We also believe Powell is the right person for the job.   
  
***Life Sciences Tools & Services*  
  
10. Researchers working on a $500 blood test which could detect eight types of cancer before symptoms arise**  
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A group of scientists and researchers led by a team at Johns Hopkins School of Medicine are working on a revolutionary new blood test which could identify eight different types of cancer before any symptoms have become evident. The new blood test, called CancerSEEK, would cost just $500 and would look for target cells from lung, breast, ovarian, and colorectal cancers, among others. While the test has proven very effective on a study group of over 1,000 volunteers known to have a form of the disease, it also effectively ruled out nearly the same number of healthy individuals. In other words, the rate of "false positives" were much lower using CancerSEEK as compared to conventional detection methods. For five of the eight types of cancer detected by CancerSEEK, there are currently no screening tests available. The next step? A new, large-scale trial using up to 10,000 healthy individuals. If this trial goes as expected, CancerSEEK will be well on its way to becoming commercially available. For more information, visit [Johns Hopkins School of Medicine](https://www.hopkinsmedicine.org/news/media/releases/single_blood_test_screens_for_eight_cancer_types).       
  
***Computers & Peripherals*  
  
09. Long-awaited Apple HomePod is finally coming out, but it is already being trashed by the critics**  
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Apple (AAPL $120-**$177**-$180) has had a rough couple of days. Following rumors that it will halt iPhone X production due to sluggish sales (not true), haters are now piling on the yet-to-be-released HomePod, the company's version of Amazon's (AMZN) Alexa. As for the device itself, customers can pre-order on Friday, with deliveries set for 09 Feb. Detractors point to the HomePod's hefty price tag ($349) and Alexa's dominance after another holiday season of record sales. But how many times have Apple critics been wrong in the past? Yes, they were late to this party, and we are still waiting for Steve Jobs' true vision for Apple TV to come along, but count us in the Bank of America (BAC) camp, which just raised its price target on the firm to $220. If that target is hit, Apple will have a market cap of $1.1 trillion.   
  
***Media & Entertainment*  
  
08. Tax reform benefits: Disney will pay bonuses to 125k workers, initiate education programs**  
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As a result of the new tax law, Walt Disney (DIS $96-**$110**-$116) has announced it will pay more than 125,000 employees $1,000 cash bonuses. Furthermore, the company will put $50 million into a new education initiative designed to cover tuition costs for 88,000 hourly workers. Disney will add $25 million per year into this program. The new initiative is on top of the company's current education reimbursement program, which is open to all employees. The bonuses and new tuition assistance program will cost Disney over $175 million this fiscal year.   
  
***Application & Systems Software*  
  
07. Forget bitcoin ETFs, new Reality Shares ETF focuses on blockchain technology**  
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If we have reiterated two themes time and time again, they are 1) bitcoin is in a giant bubble, and 2) the underlying blockchain technology used by cryptocurrencies is the real deal. To that end, Reality Shares has launched the very first exchange-traded fund focused around blockchain technology. The *Reality Shares Nasdaq NexGen Economy* ETF (BLCN $24-**$25**-$25) began trading last week around $24 per share, and is currently up 2.47% since its launch.  We are not making a recommendation on the investment, but investors should be able to scour the ETF's holdings for some interesting possible picks. One aspect of the ETF's name made us twitch: it sounds an awful lot like the "New Economy" fund that was all the rage right before the great Tech Bubble Burst of 2000.   
  
***Media & Entertainment*  
  
06. Another quarter, another eight million subscribers, another 10% share price jump for Netflix**  
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It seems like just another quarter for entertainment-provider Netflix (NFLX $137-**$249**-$228). Against management's own forecast for 6.3 million new subscribers in Q4, the company actually added 8.3 million new subscribers. Revenues in the quarter beat expectations by nearly $10 million. Investors applauded the results and drove the stock up by 10% at Tuesday's open. A major milestone was also reached: Netflix became a $100 billion company. To be sure, the company is turning a profit; but its P/E ratio of 228 should send up some red flags. The company is not operating in a vacuum like, arguably, Amazon is with its 337 P/E. Big league competitors like Apple (AAPL) and Disney (DIS) are closing in fast. (Recall that Disney pulled all of its shows and movies from Netflix recently.) That being said, there are still hundreds of millions of potential subscribers around the world for content providers to target, and Netflix plans to increase its marketing budget to $2 billion (with a B) in 2018 to help assure they gain the lion's share of new streaming junkies.    
  
***Food & Staples Retailing*  
  
05. Amazon Go opens, the company's first cashier-less store**  
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Imagine walking into a super-clean 7-Eleven store, picking up everything you need, and then simply walking out. No lines, no interaction, just you and the goods. Amazon (AMZN $803-**$1,349**-$1,353) is bringing that concept to reality with its Amazon Go stores, the first of which just opened to the public in Seattle. The company's "Just Walk Out" technology automatically records everything a shopper takes, and then charges them on the way out. The secret of Amazon's massive success has been in bringing convenience to Americans, with lower general costs coming in a distant second on the benefits chain. With Amazon Go, the company continues to push the envelope, forcing others to re-think their business strategies. And, in the end, the consumer is the real winner. The convenience store racket is about to become yet another industry disrupted by the $650 billion retailer.  
  
***Fraud, Waste, and Abuse*  
  
04. California legislators propose a 50% tax on corporations' tax savings**  
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California is such a beautiful state, making it all the more sad that a bunch of socialist dunderheads have risen to high levels of power in Sacramento. The latest? California legislators, upset with the new 21% corporate tax rate, are pushing for a fix to punish any California-based company with an annual net income in excess of $1 million. With the simpleminded and convoluted thinking that the corporate tax rate was reduced by 14% (from 35% to 21%), the lawmakers propose taking half of that amount (7%) as a  "surcharge" for operating in the state. Will this sick-minded plan, which will drive even more businesses out of the Golden State,  go anywhere? Fortunately, it will have to go before California voters to gain approval. Another formality the socialists in Sacramento would love to do away with. Maybe they can take a taxpayer-funded trip to Venezuela for some tips on how to make that happen from their buddy Nicolas Maduro.  
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***Trading Desk*  
  
03. Sold Ultra Clean Holdings with 1-month, 20% gain in New Frontier Fund**  
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We purchased semiconductor equipment maker Ultra Clean Holdings (UCTT $12-**$26**-$35) precisely one month ago in the New Frontier Fund (see the [Trading Desk](https://www.pennwealthreport.com/trading-desk.html) for purchase details) because we determined, from our fundamental analysis, that this strong company had been ignored by investors. Well, the investment community got wise to UCTT's clean business model, driving the price up 20% in those 20-odd trading days. We still believe adamantly in the company, but with overall market valuations where they are, we took our profits off the table (actually, our stop-limit hit). We had planned to own the company longer, but 1% per day for the holding period was good enough for us.  This short-term buy/sell highlights the importance of funding a personal IRA account to the max allowed to avoid the greedy tax collectors in D.C.  
  
***Information Technology Services*  
  
02. Carl Icahn is pushing for beleaguered Xerox to put itself up for sale**  
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Before the great tech bubble burst of 2000, Xerox (XRX $26-**$32**-$34) had a market cap of $26 billion and a share price of $168. Today, the IT services company is a shell of its former self, holding a mid-cap valuation of $8 billion and, seemingly, lost in the woods strategically. Now, two major shareholders are demanding something be done. Hedge fund manager Carl Icahn and shareholder Darwin Deason have called for CEO Jeff Jacobson to be replaced, the company's one-sided deal with Fujifilm Holdings to be terminated or renegotiated, and a strategic review of the viability of selling the company. After spinning off the company's most forward-looking unit—Conduent (CNDT)—last year, the question becomes who would possibly want what remains?  
  
***Biotechnology*  
  
01. Celgene to buy Juno Therapeutics for $9 billion**  
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[Penn Global Leaders Club](https://www.pennwealthreport.com/the-penn-portfolios.html) member Celgene (CELG $95-**$103**-$147) is a major global biotech firm with dominance in the blood cancer treatment arena. With a generic form of the company's blockbuster multiple myeloma drug Revlimid® coming from Teva (TEVA $11-**$21**-$38) in 2022, Celgene has been rapidly trying to bolster its stable of blood cancer drugs. To that end, the company formally announced Monday that it would buy Juno Therapeutics (JUNO $19-**$86**-$74) for $9 billion—the $80 billion biotech's largest acquisition to date. The deal will add a strong lineup of lymphoma therapies to Celgene's pipeline. Juno busted through its $74, 52-week high at Monday's open on the news, jumping 27%.

***Headlines for the Week of 14 Jan—20 Jan 2018***

***Dow rises 1,000 points in seven trading days...***



***Global Strategy: Latin America*  
  
08. Venezuela's oil production plummets to lowest levels since 1989**  
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Looking at the failed socialist state that is Venezuela, if you had to pick one probable lifeline for that country what would it be? Most people would answer "oil revenues" without giving it much thought. After all, what is the country selling the rest of the world besides crude? (In fact, 95% of export revenues come from crude.) Incredibly, and incredibly depressing for the poor souls living under the iron socialist fist of the simpleton Nicolas Maduro, the country's one trump card is collapsing at a stunning rate. Oil production fell 11% in the one-month period between November and December alone. For all of 2017, production is down by nearly one-third—to 1.6 million barrels per day. To put that in perspective, US crude production currently sits at around 10 million barrels per day. Venezuela's state-run oil company blames "sabotage and terrorism" for the steep output decline, yet offers no proof. In reality, complete mismanagement and a government structure in total chaos is the cause. There will be national elections held in Venezuela later this year. After some degree of literal national starvation, the Venezuelan people must take charge and force Maduro and his socialist ilk from power. Sadly, there is zero chance he would let that happen through an election which he ultimately controls.  
  
***Work & Pay*  
  
07. Jobless claims fall to lowest number in nearly two generations**  
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Americans filing for first-time unemployment "unexpectedly" dropped by 41,000, to a seasonally-adjusted 220,000. That is the lowest rate in—get ready for it—45 years. February of 1973 was the last time the unemployment claims were this low. This glowing jobs report will add fuel to the Fed's fire for raising rates sooner rather than later. We are expecting three interest rate hikes in 2018, which this economy can easily absorb. If the Fed doesn't keep raising rates, inflation will rear its ugly head more rapidly than most expect, causing serious economic issues.  
  
***Drug Retail*  
  
06. GNC soars nearly 50% in early Thursday trading, but there's more to the story**  
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First the good news: shares of $342 million micro-cap GNC Holdings (GNC $3-**$5**-$11) were soaring nearly 50% in early Thursday trading after the health and vitamin retailer handily beat Q4 profit expectations. Adjusted EPS came in at $0.24 to $0.25 versus expectations for $0.23. Additionally, same-store sales rose 5.7% from Q4 of 2016, and the company affirmed its free cash flow estimate for 2017 to be in the $190 million to $210 million range. That being said, the last time we reported on a GNC earnings beat the company jumped 25%, to $9 per share. Today's near-50% gain made the company's shares rise to $5, or about 45% *below* where they were trading after the last big spike. Odds are the company will be taken private one of these days, but the $1.629B enterprise value of GNC will make that a costly undertaking for a private equity firm.   
  
***Automotive*  
  
05. Ford plunges on sour 2018 outlook, but should investors abandon the stock?**  
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The headline which came out on Wednesday reads a lot different than the ones we have written on [*Penn Global Leaders Club*](https://www.pennwealthreport.com/the-penn-portfolios.html) member Ford (F $10-**$12**-$13) recently. Not only did the US automaker post preliminary 2017 profit numbers which fell far short of expectations, it also painted a rather gloomy picture for 2018. The company blamed higher commodity costs and currency fluctuations for the lowered projections, in addition to a costly re-tooling effort as it gears up for a massive electric vehicle effort. The stock dropped 7% on the news, but should investors panic? Not just yet. Demand for Ford trucks remains high, and the company announced it will have an all-electric SUV with a 300-mile or better range out by 2020. Fair value for Ford right now is somewhere, we believe, between $12 and $15 per share. For now, we are keeping the stock in the PGLC and not (yet) putting a stop on the holding.  
  
***Computers & Peripherals*  
  
04. Apple says it will contribute $350 billion to the US economy over the next five years**  
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As a direct result of tax reform, tech giant Apple (AAPL $119-**$178**-$179) announced that it would repatriate the bulk of the $250 billion it has parked overseas, paying roughly $38 billion in taxes as a result. Furthermore, the company announced 20,000 new hires over the next five years, and a second US-based campus. Finally, Apple said it will invest over $30 billion in capital expenditures over the next five years, with most of that capital being deployed in the US. All-in-all, the company figures it will be adding $350 billion to the US economy with these changes. The world's largest company ($900 billion) was up around 1% after making the announcements.  
  
***Industrial Conglomerates*  
  
03. After announcing a $6.2 billion write-down on its insurance business, GE drops the bomb**  
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Why an industrial conglomerate got into the insurance business in the first place belies logic; it is reminiscent of defunct Enron getting into industries which had nothing to do with energy, just before its massive implosion. Nonetheless, General Electric (GE $17-**$18**-$31) did, and is now paying the price. The company announced it would eat an $11 billion charge in the fourth-quarter, $6.2 billion of which from a reevaluation of its long-term care insurance business. That news was enough to make their stock drop about 3%, but the real news came when CEO John Flannery made it clear the company would be broken up soon. What would that look like? More than likely, a breakup means three separately-traded stocks for GE's three main business lines: power, aviation, and healthcare. The breakup would also mean the company would divest itself of other units, such as GE Capital, oil & gas, and lighting. Shedding the extraneous business lines makes sense, but GE will never again be the giant it once was. It didn't need to be this way. More evidence of the critical importance of strong leadership.  
  
***Currency Trading/FOREX*  
  
02. Bitcoin plunges another 20% in early trading, now down 50% from high**  
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Just about the time we began receiving increased call volume on bitcoin as an investment, the bottom dropped out of the digital currency. Peaking at $19,780 a few days before Christmas, the cryptocurrency was trading around $10,000 in early Thursday trading—a 50% drop. So what's the most recent pin prick in the bitcoin bubble? Increased regulation by governments around the world, and an increasing belief that the currency is, indeed, a bubble waiting to burst. South Korea's government has considered banning all bitcoin trading, which would have a major impact on the market considering the country's citizens are responsible for about one-third of all bitcoin transactions. The vice chair of the People's Bank of China also issued warnings and hinted of a crackdown in an internal bank memo. How did the other cryptocurrencies deal with bitcoin's plunge? They traded down in sympathy. More evidence that the real gold mine in digital currencies revolves around the blockchain technology, not the invisible coins.    
  
***Market Pulse*  
  
01. At record-breaking pace, Dow hits 26,000 on the week's opening bell**  
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It was just seven trading days before that the Dow Jones Industrial Average notched a major milestone: hitting 25,000 for the first time ever. At breakneck speed, and certainly shattering all records, the Dow gained another 1,000 points, hitting 26,000 at the opening of a shortened trading week. The catalysts for the latest record were positive corporate earnings (on the back of tax reform and a deregulatory environment) and an improving global economy. Crude continued to march higher,  with US Nymex trading at $64.09 at the week's open.

***Headlines for the Week of 07 Jan—13 Jan 2018***

***SpaceX will soon test the engines on its Falcon Heavy, the most powerful rocket since the Saturn V...***

*Headlines with an asterisk\* at the end will be discussed in more detail in the next issue of*[***The Penn Wealth Report***](https://www.pennwealthreport.com)  
  
***Business & Professional Services*  
  
20. Brink's on two-day roller coaster after gold heist, analyst upgrade**  
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What a couple of days it has been for mid-cap growth company Brink's (BCO $41-**$87**-$87). On Thursday the business services and money processing firm said it would take an $11 million pre-tax hit due to an international gold shipment heist last month. The company also gave Q4 guidance for operating profit of $280 million or so, which is 30% higher than the same quarter last year, but near the low end of expectations. Today the company was upgraded to a "buy" rating by analyst Sidoti & Company, causing shares to surge 11%. The closing price of $86.90 is just 40 cents shy of an all-time high for BCO shares.  
  
***Work & Pay*  
  
19. Walmart, Capital One raise minimum wage for workers**  
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Retailer Walmart (WMT $65-**$100**-$102) announced that it would be raising its minimum hourly wage for US employees to $11 per hour and dishing out bonuses of up to $1,000, based on time at the company. The moves, which will cost the company around $700 million, are in response to the recently-passed tax reform bill and the increasingly competitive environment brought about by the country's 4.1% unemployment rate. (WMT did report later, however, that it would be closing up to 63 of its less-profitable Sam's Clubs around the country as it continues to implement its forward-looking strategy.) Capital One Financial Corp (COF $76-**$104**-$104) also announced it would be raising its minimum wage to $15 per hour. Over 100 major companies have announced wage hikes or bonuses since tax reform was signed into law.  
  
***Media Malpractice*  
  
18. Media busted, yet again, for fake news—this time by the Chinese government**  
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When I was back in high school, the US and USSR were still heavily engaged in the Cold War. It always struck me as odd that a certain, albeit small, percentage of the American population seemed to always err on the side of the Soviets, almost as if they were KGB plants. They weren't plants, they were just useful idiots. These days, this same ilk seems enthralled with the false narrative that China has become the de facto economic leader of the world, despite the great disparity between the US economy and that of Communist China. I was struck today by a headline at www.cnbc.com which read: "*China just reminded the United States that Beijing is its banker*." A smarmy little piece that reminded me of the useful idiots during the Cold War. The CNBC headline did not stand alone; nearly every major mainstream outlet had a similar story, based on a Bloomberg report that China was going to curb its purchase of US Treasuries as "punishment" for Trump's tough trade talk. Within a day these headlines were met by a response from, of all groups, the Chinese State Administration of Foreign Exchange. The Chinese state agency said that its investment in Treasuries is based on market conditions and its needs. Furthermore, it called the report a classic example of "fake news." CNBC's David Faber was indignant at the accusation. Ahh, the simple pleasures in life. ​   
  
***Homes & Durables*  
  
17. KB Home beats estimates, jumps double digits**  
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Mid-cap homebuilder ($3.5B market cap) KB Home (KBH $16-**$39**-$35) spiked 12% after handily beating Q4 expectations. Versus $0.77 expected, the company earned $0.84 per share, with revenues growing by an impressive 18% year-over-year. The average sales price of a KB Home rose by 8%, to $416,500. Perhaps the most exciting news in the earnings report had to do with tax reform. The company said it expects its effective tax rate to fall from 37.7% to 27% in 2018. That is huge. KBH currently has a backlog of 4,400 homes, which bodes well for the company going forward.   
  
***Industrial Conglomerates*  
  
16. Case study in Leadership: Welch vs Immelt at General Electric**  
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While they play nice in public view, there is an ongoing feud between the two former CEOs of industrial giant General Electric. The legendary Jack Welch regrets grooming his replacement, Jeffrey Immelt, and Immelt thinks that Welch left him a lumbering giant whose best days were behind it. Whose right? All metrics support Welch. The only question now is whether or not the company can return to greatness—and whether or not John Flannery is the right person to head the turnaround effort. (We say no.) [See the stunning chart](https://www.penneconomics.com/industrial-conglomerates.html) on GE performance under both CEOs.  
  
***Currency Trading/Forex*  
  
15. Need more proof that cryptocurrencies are a bubble waiting to burst? Consider Kodak...**  
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When you hear the word Kodak, what do you immediately think of? For most of us, the iconic (and outdated) Kodak camera or those cylindrical rolls of yellow and black film come to mind. Not anymore. The long-beleaguered imaging company (KODK $3-**$9**-$16), whose stock price has been steadily declining for years, decided that it would create and begin mining its own cryptocurrency. From film to currencies? How did investors react to the news? KODK spiked from $3.10 per share to over $11 per share almost instantly (though the price has fallen back to $9.40 as of the time of this writing). KodakCoins are tokens inside of the blockchain technology KodakOne platform, with the tokens being used by photographers to make and receive payments. We can see cannabis companies creating their own cryptocurrencies next (actually, they probably already have). As crazy and out-of-control as all of this is, the underlying blockchain technology, we believe, will actually transform the Forex landscape forever. ([See the KODK chart](https://www.penneconomics.com/currency-trading-forex.html) before and after the announcement.)  
  
***Aerospace & Defense*  
  
14. SpaceX is about to test the engines on its Falcon Heavy, the most powerful rocket since the Saturn V**  
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Within the next few days, fingers crossed, SpaceX will test the engines on its Falcon Heavy, the most powerful (and most impressive) rocket since the Saturn V—the vehicle which launched 27 American astronauts on their journey to the moon (with [12 subsequently walking the surface](https://nssdc.gsfc.nasa.gov/planetary/lunar/apollo.html)). If the test goes as planned, the Falcon Heavy's maiden flight could come before the end of January. Just how powerful is the SpaceX rocket? At least twice as much thrust can be generated compared to any other rocket on the planet (sorry, Putin). It has been a national disgrace that the only country to launch humans to the moon let its manned space program die after the Space Shuttle was retired (Obama mothballed the National Aerospace Plane), forcing US astronauts to hitch rides aboard Cold War-era Russian rockets. That long national nightmare is about to come to a close.  
  
***Automotive*  
  
13. Technical analyst at Evercore: Now is the time to buy Tesla**  
​  
Electric vehicle maker Tesla (TSLA $226-**$335**-$390) has rolled off to a pretty good start this year, up 7.44% in the first seven trading days of 2018. The head of technical analysis at Evercore Partners, Rich Ross, believes that the company has plenty of room to run.  "If you're thinking about buying it, now's the time," Ross told CNBC's *Trading Nation*, noting that the company's stock price has maintained its level above $300 per share. Ross believes the company could continue to climb back to or above its $390 high.  
  
***Automotive Components*  
  
12. Took our profit on Goodyear Tire**  
​  
Precisely two months ago we added Goodyear Tire (GT $29-**$34**-$37) to the [Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html), as the financials pointed to a much higher valuation than what was being reflected in the current price at the time: $28.99. Today, we took our 16% short-term profit off the table for a couple of reasons: our initial price target was met, and some actions among foreign competitors in the industry may mean a near-term pullback in GT. Members can see the trade by visiting the [Trading Desk](https://www.pennwealthreport.com/trading-desk.html).   
  
***Food & Staples Retailing*  
  
11. The end of the cashier?**  
​  
Food and retail superstores Walmart (WMT $65-**$100**-$102) and Kroger (KR $20-**$28**-$35) are about to roll out technology that will transform the way we shop. Specifically, it will end the days of trying to find the shortest checkout lane and then fumbling through gossip rags as we wait to pay for our goods. Walmart is calling it “Scan & Go,” while Kroger’s platform is named “Scan, Bag, Go,” but the two have the same objective: allow shoppers to scan items as they place them in their cart, and then pay with the simple tap on a smartphone app. The technology now exists to complete such transactions, as Amazon (AMZN) has proven. WMT and KR will begin rolling out the systems at hundreds of locations this year. Both companies have said they plan to simply re-deploy cashiers to perform other tasks designed to enhance the customer experience.   
​  
***Market Pulse*  
  
10. S&P 500 records best start to a year in over half-a-century**  
​  
1964. The first Ford Mustang was rolling off the assembly line, The Rolling Stones released their debut album, and the S&P 500 Index got off to what would be its best start of any year...until 2018. By Tuesday's close, the S&P had notched its sixth consecutive record of the young year, out of six trading days. Banks and health care companies led Tuesday's rally, but virtually every sector and market cap joined in. Hopes are high for the upcoming earnings season, and corporations are celebrating the potential benefits to their balance sheets as tax reform kicks in. The biggest threat to the rally, in our opinion, continues to be geopolitical concerns. For the time being, however, friction on the Korean Peninsula appears to be easing as we move closer to the Summer Olympics in Pyeongchang, South Korea. To be sure, this relative calm will not be maintained. The only question is the timing. Investors should use this lull in the action to add further protection on their investment portfolio. Penn Wealth Management clients and Penn Wealth Publishing members should take this time to revisit the "[*Protecting Your Portfolio*](http://pennwealth.uberflip.com/i/911671/5)" article in last month's ***Penn Wealth Report***.  
  
***Media & Entertainment*  
  
09. E.L.F. Beauty drops double-digits on a day when the Dow rises triple-digits**  
​  
For any investor just waiting to jump into cosmetic company e.l.f. Beauty (ELF $19-**$20**-$31), Tuesday was probably the day. Shortly after the company cut its long-term growth target, shares plunged about 14%—to a one-year low of $18.82. After the market had a chance to digest the numbers, however, the stock climbed back to $20 per share. The company has an intriguing story, and plenty of great partners to help push out their products (like Ulta, Target, Walgreens, and CVS), but there simply isn't enough data for us to pull the trigger on the small-cap ($1 billion market cap) growth stock. ELF began trading in September of 2016 at $25 per share.   
  
***Media & Entertainment*  
  
08. Disney-controlled Hulu had a blowout year, added 40% to subscriber base**  
​  
Direct-to-consumer streaming company Hulu isn't publicly-traded, but investors can now take advantage of its explosive growth by picking up some Walt Disney (DIS $96-**$110**-$116) stock. That's because Hulu, which had been controlled by equal stakes between Disney, Fox, and Comcast, came over to the House of Mouse when Disney bought most of the assets of 21st Century Fox last month. Hulu added 5 million new subscribers last year, bringing the total subscriber base to over 17 million. That, in turn, means that the streaming company's total audience size is now over 50 million. Hulu's advertising revenue topped $1 billion in 2017, and its original content programming won 10 Emmy Awards last September. Many pundits thought Disney should have purchased streaming giant Netflix (NFLX) years ago. They are taking a different path to domination, however. The company already announced it was pulling its programming from Netflix; now that it owns competitor Hulu, almost all Disney content will be accessible only on a platform owned by the company. Brilliant management. (Disney is a member of the [*Penn Global Leaders Club*](https://www.pennwealthreport.com/the-penn-portfolios.html).)   
  
***Education & Training*  
  
07. Oracle sets up $43 million charter school on its campus grounds\***  
​  
Why didn't they have something like this when I was a teenager? It is called Design Tech High School, and it exists on the grounds of Oracle's (ORCL $39-**$49**-$53) Redwood City, California campus. The tech giant is spending $43 million on the project, which was borne out of the dearth of qualified computer and software engineers, and a need to better educate American students in STEM fields of study. The charter school houses a two-story workshop space, called the "Design Realization Garage," and its students have already applied for and received US patents for their designs. This type of private/public partnership is the future of education, but we can expect serious pushback from the usual suspects—those groups wishing to protect their little fiefdoms at the expense of better-educating our children. You can visit the school [here](http://www.designtechhighschool.org).  
  
***Multiline Retail*  
  
06. Target up about 4% pre-market after announcing solid holiday numbers**  
​  
Multiline retailer Target (TGT $49-**$67**-$72) joined the ranks of Macy's (M), JC Penney (JCP), and Kohl's (KSS) in announcing better-than-expected sales figures for the 2017 holiday season. For the busiest shopping months of November and December, TGT notched a 3.4% jump in physical store *and* online sales, compared to a 1.2% decline in the previous year. The company had projected 0% to 2% growth for the period. Shares jumped about 4% pre-market on the news.   
  
***Global Strategy: Latin America*  
  
05. What do you do when your currency is in the toilet and inflation is at 1,000%? Start your own cryptocurrency**  
​  
Venezuela is a country being ruled by a hapless socialist dictator—Nicolas Maduro. The country's national currency, the bolivar, is in absolute free-fall, and inflation is running somewhere near 1,000% per year. So, what is a commie leader to do? Start his own cryptocurrency, of course. Proclaiming that "the 21st century has arrived!" (more like the 11th century), Maduro unveiled 100 million units of the petro—a digital currency to be backed by the specific assets of a Venezuelan oil well. No word on when the first 100 million tokens will be "mined," but how much do you want to bet the Maduro government will try and pay off their $150 billion of global debt in petros before the country goes into full-fledged default? This would be really fun to watch, if it weren't for all of the Venezuelans living in abject poverty thanks to the string of socialist Venezuelan regimes.  
  
***Computers & Peripherals*  
  
04. Seagate Technology rises 7% on rumor it owns a part of cryptocurrency firm Ripple**  
​  
Bitcoin may be down nearly 25% in the past month or so, but Cryptocurrency Madness still has a hold on millions of brains around the world. Take data storage maker Seagate Technology (STX $31-**$46**-$51). The company popped 7% after a little-known blogger reported that Seagate had taken a stake in Ripple, the private company behind the eponymous cryptocurrency ripple.  ValueStreet Research claimed that STX may own 4% or more of Ripple, which could be worth nearly $8 billion (Seagate's market cap is just $13 billion). We don't care about this particular rumor, but now we are really kicking ourself for not buying Seagate last July when it was sitting at $32 per share (see [Computers & Peripherals](https://www.penneconomics.com/computers--peripherals.html)).   
  
***Consumer Electronics*  
  
03. GoPro to cut workforce by 20%; investors reward the company with a 20% hit to share price**  
​  
Nearly a year ago, action camera-maker GoPro (GPRO $7-**$6**-$12) announced that it would cut about 18% of its workforce as it tried to increase efficiency. Investors responded by sending shares up 11%. The company tried it again this week, announcing a 20% job force reduction, but the response was quite different—GPRO plummeted 20% at the open. Once a $98 dollar stock, the company appears to be dropping ballast over both sides of the ship in an effort to stay afloat. Not only is the company reducing its staff to below 1,000, it is also exiting the drone market and reducing the price of its newest HERO6 model by $100. (***Update***: the loss was cut in half after it was reported that the company hired JPM to begin the process of selling the company in a move to go private.)  
  
***Restaurants*  
  
02. Just as Dave & Buster's seemed to be clawing its way back, its shares fall off of a cliff—yet again**  
​  
We mentioned last year, when Dave & Buster's (PLAY $46-**$46**-$73) was sitting near its one-year high at the time, that we wouldn't touch the stock—though the restaurant did look like a fun place to hang out. The share price subsequently dived to $45.71 per share. Just as it appeared to be digging itself out of that hole, the company released some pretty lousy guidance on Monday, sending the shares reeling 20% at Monday's open. Management admitted that, while they expected strong December sales, trends instead softened further. Comparable store sales were down 5.1% for the quarter. While investors may be tempted to jump in at $46, consider this: the operating margin (what proportion of revenue is left over after paying the variable costs of production) on PLAY is 15%; the operating margin for McDonald's (MCD) is 40%. Not a precise apples-to-apples company comparison, but close enough to get the message.  
  
***Work & Pay*  
  
01. Job creation in 2017 provides strong foundation for US economic growth in 2018**  
​  
December's job report may have been a little soft, with just 148,000 new hires, but the 2.1 million new jobs created throughout 2017 brought the US unemployment rate down to its lowest level in 17 years—and portends good things for the year ahead. The unemployment rate is the lowest its been since 2000 (4.1%), and the black unemployment rate (6.8%) is suddenly the lowest it has been since the government began tracking the stats. All of this occurred in the face of dire warnings of machines taking jobs away from humans, and economists' predictions that US manufacturing was on a downhill slide. If there is one concern we have, it is not the lack of jobs in America; it is the inability of US companies to find qualified American workers to fill the increasingly-technical jobs being created. To that end, we look for a major overhaul of the way we educate and train the young, especially those who reside in the lowest two quintiles of the economic spectrum. And the answer does not lie in throwing more money at the problem.

***Headlines for the Week of 31 Dec 2017—06 Jan 2018***

***The Howard Hughes Corporation's new 'A'ali'i Ward Village Tower...***

*Headlines with an asterisk\* at the end will be discussed in more detail in the next issue of*[***The Penn Wealth Report***](https://www.pennwealthreport.com)  
  
***Computers & Peripherals*  
  
14. Tax reform loser: Deutsche Bank will take $1.8 billion charge thanks to tax reform across the pond**  
​  
There have already been a lot of corporate winners in the US thanks to the new tax laws, but what about overseas corporations? As could be expected, what is good for US-centric companies with respect to tax policy is bad for European banks. Case in point? Deutsche Bank (DB $16-**$19**-$20) was off roughly 6% following the German company's announcement that it would have to take a 1.5 billion euros ($1.8 billion) hit in its fourth-quarter thanks to the decreased value of its "deferred tax" assets in the US—a direct result of the lower US corporate tax rate. As money comes flooding back into the US (which was parked abroad to avoid the 35% tax hit), look for European banks to get pounded down even further, despite the increase in economic activity on the continent. We are increasingly looking for overseas investments to diversify after the 2017 run-up in the US, but we are avoiding the European financials.  
  
***Commercial Banks*  
  
13. Tax reform loser: Deutsche Bank will take $1.8 billion charge thanks to tax reform across the pond**  
​  
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***Wall Street*  
  
12. Dow hits 25,000 for the first time, but here's a really amazing stat**  
​  
Shortly after Thursday's open, the Dow notched an impressive record: it hit 25,000 for the first time ever. Pretty remarkable, considering the dire predictions we were virtually guaranteed would transpire back in November, 2016. But here's an even more impressive fact: the S&P 500 has recorded gains for every single calendar month since November of 2016. Every single month in 2017, positive. The last time anything like that happened (using the S&P 500 and its predecessor indices as the benchmark) was 1927. Ninety years ago. Now that's impressive.   
  
***Real Estate Management & Development*  
  
11. The Howard Hughes Corp unveils its new luxury living tower in Honolulu's urban core**  
​  
Architectural Digest called the Howard Hughes Corp's (HHC $105-**$127**-$133) Ward Village in Honolulu the "best-planned community in the U.S."  Now, the 60-acre luxury paradise is about to get a new addition: the 751 "home" 'A'ali'i luxury tower. The tower, touted as a "turnkey luxury living solution," will have resort-style amenities, top-line appliances, and a stunning ocean and mountain view. 'A'ali'i (the name of a native flower, by the way) will join four other Hughes-built towers, and is slated for completion around 2020. Ultimately, the Ward Village community will consist of over 4,500 residences and one million square feet of retail space—all within walking distance. Want to reserve your new digs? Visit the company [here](https://www.wardvillage.com/residences).   
  
***Utilities*  
  
10. Scana investors and South Carolina residents made out like bandits on the Dominion deal, everyone else lost**  
​  
It made perfect sense for Scana Corp (SCG $37-**$48**-$74) to desire a merger with much larger Dominion Energy (D $71-**$77**-$85). After all, following an enormously-costly and ultimately abandoned nuclear power plant project which cost the firm about $10 billion, Scana was on the skids. Despite being a "regulated" supplier of electricity, the company's share price had dropped nearly 50% within the past year. When Dominion struck a deal to buy Scana, the latter's share price spiked 23%. Not only are shareholders celebrating, South Carolina residents are as well—Dominion has agreed to pay them $1,000 per customer, in cash, within 90 days. Dominion's shareholders are left scratching their heads. Their company has just agreed to absorb all the costs of the failed nuclear power plant foray. Dominion's share price fell 4% on the news, and is down about 10% since rumors began circulating.   
  
***Restaurants*  
  
09. Restaurants jump as *SunTrust sees big windfall for industry from tax reform***  
​  
Restaurant stocks, as a group, spiked on Wednesday after analysts at SunTrust issued a report pointing to a potential big windfall for the industry following the passage of tax reform. Because most of the names in the industry don't have much of an overseas footprint, the majority have been carrying the full load of the 35% US corporate tax bracket; a bracket which went down to 21% with the passage of the new law. The windfall should trickle down to the consumer, as these chains launch new promotions with the loot in an effort to increase traffic. Shake Shack (SHAK) was up about 8%, Chipotle (CMG) 6%, and El Pollo Loco (LOCO) 5% following release of the SunTrust report.  
  
***Goods & Services*  
  
08. *US manufacturing notches best year since 2004***  
​  
According to the Institute for Supply Management (ISM), US manufacturing expanded at its fastest pace in a quarter last month, putting the cherry on top of the best month for American factories in thirteen years. The ISM's factory index, in which any number below 50 represents contraction and any number above 50 represents expansion, surged to a reading of 59.7, indicating a healthy and growing domestic economy. Increased spending in the US by both corporations and individuals, in addition to increased exports of goods, helped the number's ascent.    
  
***Internet Retail*  
  
07. *With Whole Foods under its belt, is Amazon setting its sights on Target?\****  
​  
Well respected industry analyst and venture capitalist Gene Munster made a bold prediction this week: after digesting the purchase of Whole Foods, internet giant Amazon (AMZN $754-**$1,204**-$1,213) will set its sights on retailer Target (TGT $49-**$67**-$74). While the Whole Foods purchase certainly makes this potential takeover a little more probable, we still don't see it happening. Yes, Amazon wants to move into fashion retail like it did (or is doing) into food retail, but gobbling up a $37 billion, somewhat questionable retailer may not be the best solution. Why not pick up a mere $8 billion company, like Macy's (M) or Nordstrom (JWN) instead? Not that Target's clientele wouldn't be a good fit for Amazon, and they are certainly in the target demographics; but, if it does happen, we believe it will more of a sign that Wal-Mart's (WMT) recent online success has gotten into Jeff Bezos's head.   
  
***Business & Professional Services*  
  
06. *US quashes China's Ant Financial's bid to takeover Dallas-based MoneyGram\****  
​  
And the saga continues. Nearly a year ago, we reported on the duel between China’s Ant Financial and Kansas-based Euronet (EEFT $71-**$85**-$101) for control over money transfer services company MoneyGram International (MGI $11-**$12**-$18). Ultimately, despite being a Chinese firm in a more protectionist environment in the US, we figured that the $75 billion Ant would get its way. Not so fast. The Committee on Foreign Investment in the US (CFIUS) just torpedoed the deal, sending MGI’s share price down to $12.40. [Read the full story here](https://www.penneconomics.com/business--professional-services.html).   
​  
***Energy Commodities*  
  
05. *Crude hovers just above the $60 per barrel mark, trigger finger getting itchy***  
​  
It's the highest oil prices have been in over two years, and it has us itching to pull the trigger on our favorite short oil investment, the ProShares UltraShort Oil and Gas ETF (DUG $36-**$36**-$53). With tensions high in Iran, West Texas Intermediate futures closed above $60 last Friday—the first time that has happened since the summer of 2015. Brent, the global benchmark was sitting at $66.57 per barrel by the close of trading on Monday. With US producers taking their equipment out of mothballs, expect oil to trade in a range, despite the saber-rattling at OPEC headquarters. If we are not at the peak of that range, we are mighty close. Consider the fund we have used literally since it came into existence in 2007: DUG is sitting at its one year low, down 32% since August. At $35.78, we may put this back to work soon in the [Intrepid Trading Platform](https://www.pennwealthreport.com/the-penn-portfolios.html). If and when we do, it will be announced in the [Trading Desk](https://www.pennwealthreport.com/trading-desk.html).   
  
***Global Strategy: Middle East*  
  
04. *The Iranian protests are quickly turning into an actual movement for freedom***  
​  
It began as a rally against the rising price of goods in the country and the government's (mis-)handling of the economy, but it rapidly turned into something much bigger. The Iranian protests, which began in the second-most populous city of Masshad, are erupting into a nationwide movement, with calls for "supreme leader" Khamenei to step down. That is a very dangerous stance to take in a country whose leaders advocate and maintain absolute power. So far, at least twenty protestors have been killed and over 600 arrested. Will this movement make it further than the one advanced following the sham 2009 Iranian elections (and the one which the United States refused to support)? It's hard to say. But one thing is certain: it is a matter of time before tyranny is replaced by freedom. That is the natural tendency of humankind, despite the wishes—or military power—of the tyrants.   
  
***Automotive*  
  
03. *Despite ride-sharing-mania and growth of mass transit, auto sales top 90 million for the first time***  
​  
Granted, millions upon millions of citizens from emerging market countries are finally finding themselves on a higher rung of the economic ladder, but the latest global auto sales figure is still staggering. More than likely, over 90 million passenger autos and trucks were sold around the world last year, easily notching a new record. According to industry firm WardsAuto, most of the growth came from the emerging markets of Brazil, Russia, India, and China. North America, however, remains the most profitable marketplace for auto manufacturers.     
  
***Semiconductors & Equipment*  
  
02. *Under the Radar*: Ultra Clean Holdings, Inc.**  
​  
Ultra Clean Holdings, Inc. is a small-cap value company (just $780 million market cap) in a red-hot industry. As a manufacturer of semiconductor equipment, the company should avoid the headline risk, e.g. "XYZ Corp loses Apple contract," associated with many of the direct chip makers, but can take advantage of the explosive growth in the industry. The company has a strong management team, plenty of solid contracts, and a P/E ratio of just 12—about half that of the industry. Did Penn take action on the stock? Clients and members can check out the [Trading Desk](https://www.pennwealthreport.com/trading-desk.html).    
  
***Global Strategy: East/Southeast Asia*  
  
01. Shocker! China has been secretly shipping oil to North Korea, in violation of transfer of goods ban**  
​  
Did anyone really expect the Chinese to abide by a transfer of goods ban on their trading partner to the immediate south, North Korea? It always amazes us how a certain group of individuals continually get snookered by communists, socialists, and dictators. As Ronald Reagan so eloquently and succinctly put it, we must "trust, but verify." The US Treasury Department has released spy satellite photos of Chinese ships transferring oil to North Korean ships in the Yellow Sea. Perhaps the Chinese didn't think our satellite technology was up to the task of busting them in such a blatant act on the open seas, or perhaps they thought they were still dealing with the previous administration. Nonetheless, we now have a record of at least 30 such transfers since October. Despite the photographic evidence, the Chinese government is denying the incidents took place.