

# DOW THEORY FORECASTS®

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Stock Market Trends & Securities Reports Since 1946

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## What you want to know

### Health-care review

■ In a late-stage study to treat follicular lymphoma, **Celgene** (\$104; *CELG*) said a potential combination treatment using its blood-cancer drug Revlimid failed to outperform the standard treatment involving chemotherapy. Although analyst expectations for the trial were generally modest, this marks the second time since October that Celgene's pipeline has misfired. In October, Celgene abandoned an experimental drug for Crohn's disease. *The stock remains a Focus List Buy and a Long-Term Buy.*

■ The federal health exchange, used by 39 states, saw 8.8 million people sign up for insurance under the Affordable Care Act, down 4% from 2016. The results were surprisingly strong, given the hurdles ACA faced. The open-enrollment period was cut in half to 45 days, while its advertising budget and outreach programs were also slashed. Adding to those challenges, President Trump ended cost-sharing subsidies for insurers, causing rates to surge. The pace of enrollments for the 11 state exchanges, some with deadlines as late as Jan. 31, is flat to up from last year. The news bodes well

*Continued on page 6*

Many of the questions we receive are repeats, asked over and over again by different readers. So, in the spirit of serving the most people possible, the following paragraphs answer some of the most frequently asked questions, including several asked a lot lately.

**Q** *What do I do with shares of a stock you touted as a Buy last week, then sold this week?*

**A** This is the single most common question we receive, and the answer is simple, if somewhat unsatisfying:

Sell the stock.

In our system, a stock on the Buy List remains a Buy until the moment we decide to sell it. We don't use watch lists on either the buy or the sell side, and we consider our advice on each recommended stock at least twice every week. Each time we publish an issue or hotline that features XYZ on

the Buy List serves as a confirmation that we still see XYZ as a Buy, and subscribers should purchase it.

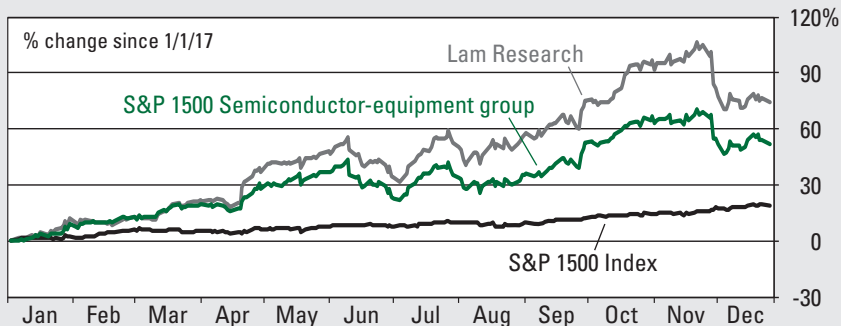
Companies don't exist in a vacuum any more than our ratings do. Circumstances change, and there's no such thing as a permabuy. If a stock no longer ranks among our top picks, we sell. Hopefully at a profit, though sometimes at a loss.

Of course, your money is your money, and only you can make the final decision about whether to sell. If you wish to track one of our recommended lists, we advise buying when we buy and selling when we sell. Rest assured, we haven't lost sight of a stock just because we didn't sell it after bad news broke. More likely, we're weighing our options.

**Q** *Lam Research* (\$185; *LRCX*) *has more than doubled since I bought it.*

*Continued on page 2*

### LAM VERSUS THE SEMICONDUCTOR-EQUIPMENT GROUP



Spurred by robust spending by producers looking to expand production of memory chips and other semiconductors, the semiconductor-equipment group and **Lam Research** (\$185; *LRCX*) surged in 2017.


# What you want to know

Continued from page 1

Should I sell off a portion of the position?

**A** We still see Lam Research as a top Buy and would hold it at this price, or purchase it if we didn't already own it. That said, the decision about whether to peel back a position depends far more on your personal allocation than on the merits of the stock.

We can't answer your question precisely, mostly because there is no single right answer. Of course, if the position has grown to more

**Q & A**  than 10% of your equity portfolio, we'd consider that an unusually high level of dependence on any stock, no matter how much we like it.

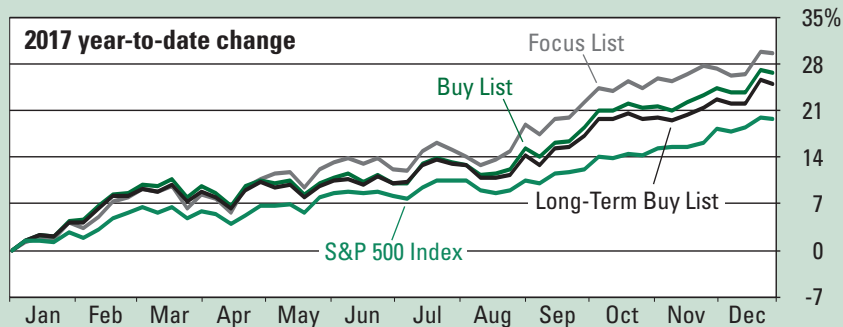
Our Buy List, which we consider a somewhat diversified portfolio, holds a 3.6% position in Lam, as shown in the target weights in the page 7 table. Our equal-weighted Focus List, which we see as a great bolt-on to an existing portfolio, holds 7.14% in Lam because the Focus List currently has 14 stocks. In calculating returns for our buy lists, we assume that stocks are rebalanced to their target weights at year-end and when changes are made.

**Q** *Company A seems cheap, and it's still growing. Why did you sell it from the Buy List?*

The Dow Theory is a method of interpreting and classifying general market trends and does not directly encompass the selection or rating of individual stocks or the duration of market movements. Dow Theory Forecasts endeavors to supply its subscribers with sound opinions and advice based on its analysis of public information from sources believed to be reliable. The opinions and advice of Dow Theory Forecasts are not based on the individual investment objectives of subscribers. It should not be assumed that present or future recommendations will be profitable or will equal past performance.

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## OUR BUY LISTS VERSUS S&P 500 INDEX



Because of its smaller size, our Focus List tends to deliver more volatile returns than our Buy List or Long-Term Buy List. In 2017, all three lists outperformed the S&P 500 Index.

**A** For a moment, let's forget that whenever we sell a stock, we explain our reasoning in our twice-weekly hotlines and in the newsletter.

Any time you purchase a stock — either on our recommendation or because of your own research — realize that you're owning it to sell it. Just as you should have clear reasons for purchasing the stock in the first place, you should have some idea what might drive you to get out.

At some point every company will post disappointing results or generate some bad news. Sometimes we'll sell immediately at the first whiff of bad news.

However, more often we'll wait to see how the market reacts, and consider other factors affecting the stock. As a rule, we avoid knee-jerk reactions because they tend to cause poor investment decisions.

When we view a stock's discount

valuation as a big part of its appeal, disappointing news is less likely to trigger a downgrade to sell. But when a company's operating momentum is integral to our recommendation, even a mildly disappointing quarter may be enough for a downgrade.

Possible reasons for selling a stock from one of our recommended lists include:

- ◆ Poor quarterly results or guidance.
- ◆ Bad news from a competitor that might infect our stock.
- ◆ Good news from competitor that might marginalize our stock.
- ◆ Regulatory changes that alter the outlook for our stock.
- ◆ Declines in Quadrix® scores.
- ◆ Weak share-price performance.
- ◆ Sharp increases in valuation ratios, especially when valuations become expensive relative to a stock's own history or to its industry peers.

We will never, ever sell a stock

capitalized securities are made available to subscribers. A small-capitalized security is defined as meeting one of the following criteria: 1) a market capitalization of less than \$300 million or 2) a three-month average daily trading volume of less than 200,000 shares, and a market capitalization of less than \$1 billion.

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without explaining why. Follow our twice-weekly hotlines via e-mail, at [www.DowTheory.com](http://www.DowTheory.com), or using the call-in instructions on page 6. If you'd rather not check the hotlines, count on reading about any downgrades in the next issue of *Dow Theory Forecasts*.

**Q** How is Quadrix calculated?

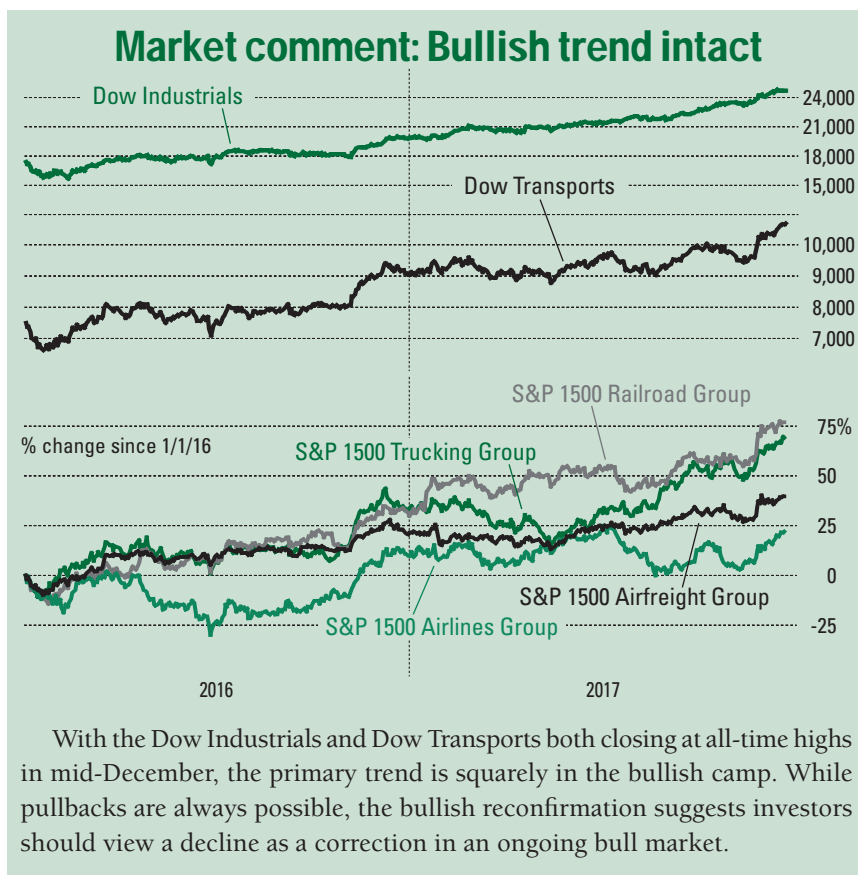
**A** We get this one from a lot of new subscribers. As they read more issues, they'll learn more about Quadrix, which we write about frequently. But, in brief, Quadrix is a quantitative system that assigns percentile ranks to nearly 5,000 stocks based on more than 80 statistics in six categories.

Quadrix assesses the fundamental strength of stocks. The scores alone are not enough to drive a Buy rating, but we use Quadrix to eliminate stocks with less fundamental appeal, so we can focus only on the strongest candidates. For more on how Quadrix works, visit [www.DowTheory.com/Go/Quadrix2](http://www.DowTheory.com/Go/Quadrix2).

**Q** Why don't you prioritize stocks on the Focus List? This would help someone creating a new portfolio from purchasing a stock, only to have it be sold a few weeks later.

**A** Regarding the Focus List — and the Buy or Long-Term Buy lists — we don't rank them in order of preference. First, doing so would imply a degree of precision we don't think is possible with stocks. Second, we don't think it makes sense to invest a lot of time deciding whether a stock ranks first or fifth among our Focus List stocks, since we're not going to hold a five-stock portfolio. Our Focus List, which typically holds 12 to 18 names, represents our very favorite year-ahead picks. Twice a year, around year-end and midyear, our capital-gains favorites highlight a handful of Focus List stocks we especially like.

Because we aim to limit our buy lists to our favorite stocks, every rec-



ommended stock is one bad quarter or one bad forecast removed from a downgrade. We don't sit on potential sell decisions for long periods before acting. We can at times be slow to change our opinion, but once our thinking adjusts, we generally make moves quickly. As such, we wouldn't advise any subscriber to attempt to predict which stocks aren't long for the Focus List, because we haven't decided yet.

That's a long way of saying that we don't advise cherry-picking among our stocks, in part because we wouldn't want anyone to get unlucky and own only the weakest performers. Anyone who wishes to follow the Focus List should purchase equal-dollar amounts of all the stocks on the list.

Fortunately, the proliferation of discount brokers makes such diversification easy and affordable.

**Q** If the state of the Dow Theory is revealed by the Dow Industrials and Dow Transports, why does your Market Commentary page also

talk about valuations, earnings, investor sentiment, and other factors?

**A** First, the Dow Theory is not fool-proof, so we're always looking for additional insight on the market's outlook. When investor sentiment is bullish and valuations are rich, it suggests the potential for a correction or bear market is relatively high — even if the averages are still trending higher.

Second, valuations and sentiment can help put market action in perspective. Dow Theorists divide bull markets into three phases. In the final stage, sentiment and valuations tend to be extreme — and investors should be prepared for a bear-market signal.

Third, market conditions can help point you to the most promising sectors and groups. For example, early in 2016 investors were paying up for companies with the most stable share prices, even those with meager growth prospects. We called that a mistake on this page, and our recommendation to own more volatile growers paid dividends in 2017.



# QUADRIX SPOTLIGHT


## Boost returns by avoiding tragic flaws

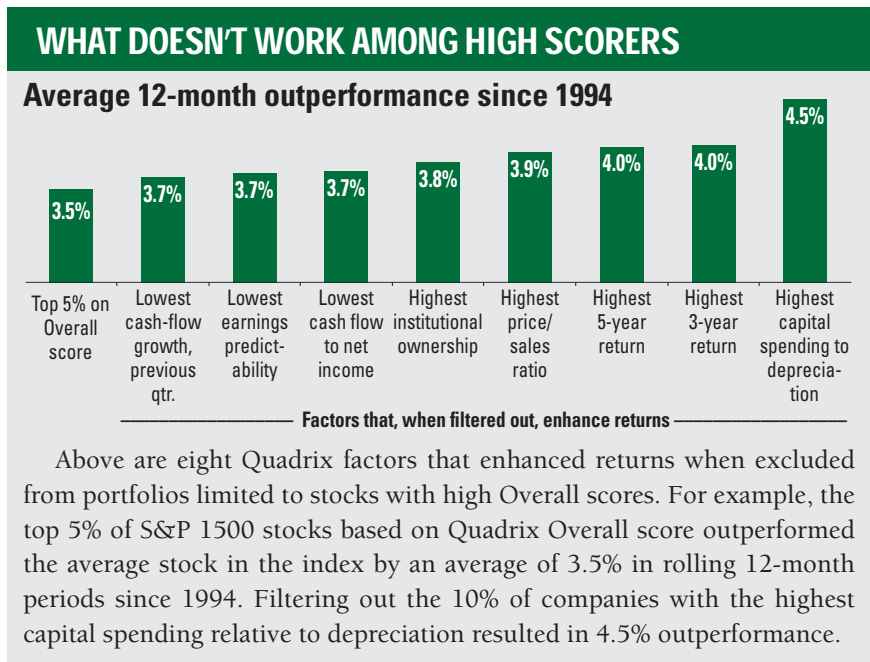
All investors need an edge; ours is Quadrix®. We've found that stocks with the highest Overall Quadrix scores tend to fare especially well. In back-tests to 1994, S&P 1500 stocks ranking in the top 5% for Overall score have outperformed the average stock in the index by an average of 3.5%, based on rolling 12-month periods.

From this top group, we can tilt the odds further in our favor by excluding stocks with fatal flaws. Filtering out the 10% of stocks with the lowest cash flow to net income (a signal of poor earnings quality) boosts outperformance to 3.7%. Eliminating stocks that have enjoyed the strongest rallies in the past three years or five years boosts outperformance to 4.0%.

No factor does a better job of filtering among Quadrix stand-outs as capital spending relative to depreciation. Excluding stocks with high spending relative to depreciation lifts outperformance to 4.5%. As discussed in the Nov. 6 issue, capital expenditures are an important way for companies to expand operations. But the payoff from these investments can be uncertain, and heavy capital spending reduces funds available for dividends and stock buybacks.

We review four recommended stocks below, all scoring above 95, and discuss whether any of them contain fatal flaws that may limit their performance in the coming year.


 **Comerica** (\$87; CMA) shares have jumped 11% in the past month, lifted by several favorable developments. First off, lawmakers slashed the corporate tax rate to 21%; Comerica's tax rate tends to be around 29%. Additionally, the Senate Banking Committee approved a proposal that would reduce the Federal Reserve's oversight for regional banks, such as

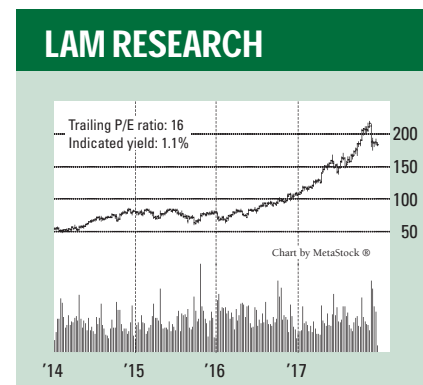
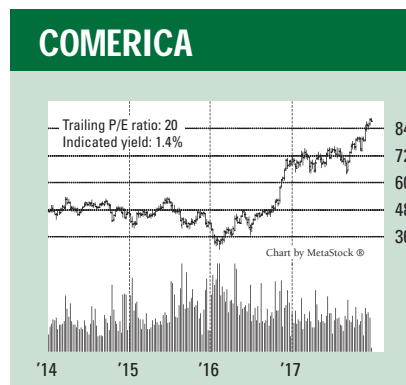


Comerica. Smaller banks would face fewer restrictions on capital, freeing up more cash for dividends, stock buybacks, and acquisitions. The bill could become law in early 2018.

Comerica also reported favorable trends for deposits and loans for the first two months of the December quarter, causing analyst profit estimates to tick higher. The consensus expects Comerica to report 30% higher per-share profits for the December quarter on 13% sales growth. In 2018, profits are projected to climb 16% and revenue 8%. *Comerica is a Buy and a*

*Long-Term Buy.*

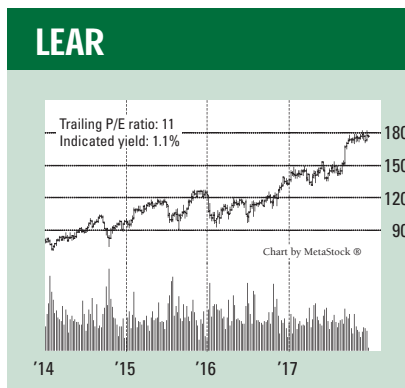
 **Lam Research** (\$185; LRCX) stock delivered a total return of 72% over the past 12 months, well ahead of the 37% average return for semiconductor-equipment stocks in the S&P 1500 Index. It also produced annualized returns of 40% over the past five years and 35% over the past three years, a faster pace than 90% of stocks in our research universe. Returns of this magnitude can be followed by weak future performance, as suggested in the chart at the top of page 4.



But any near-term reversal for Lam will not spring from excessive valuations. The stock earns a Value rank of 80 in Quadrix. At 16 times trailing earnings, the stock trades well below its five-year norm and the industry median of 20. Should Lam's trailing P/E rise to 18 and the company meet the current consensus profit estimate of \$14.60 per share for fiscal 2018, the shares would reach \$263 by July. *Lam is a Focus List Buy and a Long-Term Buy.*

↗ Even in an increasingly challenging automobile market, **Lear** (\$178; LEA) is grabbing share, as automakers cram more seats and electrical components in vehicles to satisfy consumer preferences. The company's recent growth has outpaced the automotive market, a trend management expects to continue in 2018. Analysts expect earnings per share to rise 7% to \$18.03 in 2018 on 5% revenue growth.

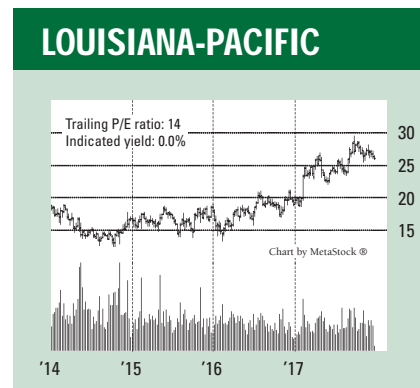
The stock has generated annualized returns of 33% over the past five years and 25% over the past three years, higher than more than 80% of stocks in our research universe. While that performance is a concern, the stock still looks cheap, earning a Quadrix Value score of 93. Lear shares



trade at just 11 times trailing earnings, lower than the median of 14 for S&P 1500 auto-parts stocks. If Lear meets the current 2018 profit estimate and its trailing P/E ratio merely rises to 12, the stock will rally 21% over the next 13 months. *Lear is a Focus List Buy and a Long-Term Buy.*

↗ With a stock-market value of \$3.86 billion, **Louisiana-Pacific** (\$26; LPX) produces framing, siding, and structural wood panels sold in North and South America. The company is exposed to the new-construction and home-repair markets, a highly attractive spot given upbeat home-builder confidence and U.S. building permits and housing starts standing at their highest levels in more than a decade.

Louisiana-Pacific scores 80 or



higher for four Quadrix factors that have a history of performing especially well for materials stocks: trailing P/E, P/E based on current-year estimates, P/E based on next-year estimates, and the consensus recommendation. See the Dec. 11 issue of *Dow Theory Forecasts* for more details.

Despite rallying 34% in the past 12 months, the stock has failed to keep pace with surging operating growth and rising analyst estimates. For the 12 months ended September, per-share profits nearly tripled to \$2.10, while sales rose 20%, operating cash flow 50%, and free cash flow 93%. Although per-share profits are expected to slip 9% in 2018, analyst estimates have risen sharply over the past 90 days. Upside, *our sister publication, rates the stock a Buy.*

## RECOMMENDED QUADRIX LEADERS

Company (Price; Ticker)	Quadrix Overall Score	– Sector Scores –			– Est. Current Year –			– Est. Next Year –			Industry	
		Factor	Reranked Sector	Fiscal Overall	Fiscal Year End	EPS	Change	P/E Ratio	EPS	Change		P/E Ratio
<b>Apollo Global Mgmt.</b> (\$33; APO)	98	99	98	98	Dec.	\$2.98	26%	11	\$3.00	1%	11	Asset management
Applied Materials (\$52; AMAT)	99	73	99	99	Oct.	4.00	23	13	4.35	9	12	Semiconductor equip.
Citizens Financial (\$42; CFG)	97	89	95	95	Dec.	2.58	34	16	2.86	11	15	Regional banks
Comerica (\$87; CMA)	95	95	88	88	Dec.	4.76	58	18	5.52	16	16	Regional banks
<b>Consolidated-Tomoka Land</b> (\$64; CTO)	99	77	100	100	Dec.	3.51	23	18	8.99	156	7	Divers. real estate
<b>Evercore</b> (\$91; EVR)	97	97	97	97	Dec.	5.26	22	17	5.61	7	16	Investment banking
<b>Federal Agricultural Mtg.</b> (\$78; AGM)	98	89	94	94	Dec.	5.33	6	15	7.35	38	11	Mortgage finance
Intel (\$46; INTC)	95	89	91	91	Dec.	3.25	20	14	3.28	1	14	Semiconductors
Lam Research (\$185; LRCX)	99	90	99	99	Jun.	14.59	46	13	15.12	4	12	Semiconductor equip.
Lear (\$178; LEA)	99	95	99	99	Dec.	16.96	21	11	18.17	7	10	Auto parts
<b>Louisiana-Pacific</b> (\$26; LPX)	99	98	100	100	Dec.	2.24	152	12	2.04	-9	13	Forest products
<b>Meridian Bancorp</b> (\$21; EBSB)	96	61	86	86	Dec.	0.83	34	25	1.16	40	18	Mortgage finance
<b>MKS Instruments</b> (\$96; MKSI)	99	99	98	98	Dec.	5.88	94	16	6.56	12	15	Semiconductor equip.
ON Semiconductor (\$21; ON)	99	97	100	100	Dec.	1.43	57	15	1.66	16	13	Semiconductors
<b>Stoneridge</b> (\$24; SRI)	98	89	98	98	Dec.	1.52	7	16	1.54	1	15	Auto parts
<b>Thor Industries</b> (\$152; THO)	99	98	99	99	Jul.	9.21	30	17	10.15	10	15	Auto makers

Note: Quadrix and sector scores are percentile ranks, with 100 the best. Upside stocks in **bold**.

# Health-care review

Continued from page 1

for **Centene** (\$103; *CNC*), a leading Medicaid insurer and one of the few players earning attractive profits on the ACA exchanges. Centene focuses on low-income patients that receive subsidies, so the surging rates are unlikely to crimp demand for its plans. *Centene is a Focus List Buy.*

## Technology update

◆ **Apple** (\$171; *AAPL*) plans to cut its March-quarter shipments for the iPhone X by 40% to 30 million units, reported Taiwan's *Economic Daily*. Although some analysts questioned the report, others have lowered their projections for the iPhone X, citing some signs of waning demand after a strong initial release in November. In other news, Apple faces a class-action lawsuit from iPhone users after the company admitted to slowing down the performance of older iPhones to preserve battery life. *Apple is a Buy and a Long-Term Buy.*

◆ **Alphabet** (\$1,060; *GOOGL*) is reportedly considering opening stores in India to boost interest in its Pixel smartphones. India has 1.2 billion mobile subscribers, second-largest in the world. *Alphabet is a Focus List Buy and a Long-Term Buy.*

◆ **Facebook** (\$178; *FB*) formed a licensing pact with Universal Music Group, its first deal with a major record label. The agreement allows users of Facebook's social network, Instagram application, and Oculus headset to post and share videos featuring music owned by the record label. Seeking to bolster its video offerings, Facebook is hammering out similar contracts with other music companies. *Facebook is a Focus List Buy and a Long-Term Buy.*

## Implications from tax overhaul

With the U.S. tax overhaul now

## RANK CHANGES

No changes were made this week in *Dow Theory Forecasts*.

\* \* \* \* \*

Check for rank changes and market updates on our twice-weekly hotlines, updated Wednesdays after the market's close and Fridays around noon Central time. Go to **www.DowTheory.com** or call (800) 931-2295. **For December, the passcode for the telephone hotline is 419. For January, the passcode is 408.**

signed into law, companies have begun publicly discussing implications of the bill and their plans for using the windfall expected from the lower corporate tax rate.

➤ **Comcast** (\$40; *CMCSa*) pledged to hand out \$1,000 bonuses to more than 100,000 workers and spend at least \$50 billion on infrastructure over the next five years. **AT&T** (\$39; *T*) promised to give \$1,000 bonuses to more than 200,000 of its employees, while increasing capital spending by \$1 billion. AT&T spent \$16.5 billion on capital expenditures in the first nine months of 2017. *Comcast is a Focus List Buy and a Long-Term Buy. AT&T is rated B (average).*

➤ **Amgen** (\$176; *AMGN*) expects its tax bill to reach \$6 billion to \$6.5 billion over time from repatriating overseas cash, currently at \$38.9 billion. The new law imposes a 15.5% tax rate for U.S. companies to repatriate cash held in overseas accounts. *Amgen is a Buy and a Long-Term Buy.*

➤ **FedEx** (\$250; *FDX*) says it expects 2018 per-share earnings of \$12.70 to \$13.30 excluding the impact of the tax legislation. The plan could lift that range to \$17.10 to \$18.80, mostly because of an accounting change that would reduce deferred tax liabilities. The lower tax rate would account for \$0.85 to \$1.00 of the total increase. In other news, FedEx said it recorded a record-breaking holiday-shipping sea-

son, though it declined to offer more details. *FedEx is a Buy and a Long-Term Buy.*

## Retailers bask in holiday cheer

Despite entering the holiday season with the tightest inventory in recent years, retailers rang up their strongest holiday-sales growth since 2011, according to **MasterCard** (\$151; *MA*). From Nov. 1 to Dec. 24, U.S. retail sales rose 4.9%, up from 3.7% growth for the same period last year, estimates MasterCard. Online sales jumped 18%. The strongest product categories included electronics and appliances, jewelry, and home furnishings. Meanwhile, National Retail Federation had originally forecasted holiday sales of \$678 billion to \$682 billion, up 3.5% to 4.1% from last year. It now expects sales to reach the high-end of that range.

The improving sales reflect rising optimism among shoppers. Consumer confidence reached a 17-year high in November. Additionally, household savings dipped to a nine-year low, while consumer credit-card debt climbed to its highest level since 2008. *MasterCard is rated B (average).*

## Chemours offers improving outlook

**Chemours** (\$50; *CC*) shares have slumped 12% in the past two months, despite several positive developments in December. Chemours raised its quarterly dividend to \$0.17 per share from \$0.03 per share, payable March 15. Chemours also approved a \$500 million share-repurchase program, running through 2020. Management said both moves reflect increasing confidence in its outlook. Chemours says it expects free cash flow to exceed \$100 million in 2017 and reach \$500 million to \$600 million in 2018. Management sees operating profit rising 21% to 32% in 2018.

Analyst estimates for the December and March quarters have slipped in the past 30 days. But estimates for

full-year 2018 have steadily crept higher, a trend that may continue after management's recent announcement of a 10% price hike for some of its chemicals on Jan. 1. The consensus currently projects per-share of \$5.05 in 2018, implying 37% growth, on 11% higher revenue.

Yet investors appear to be harshly discounting the company's growth prospects. At 10 times estimated 2018 profits, the stock trades 44% below the median for materials stocks in the S&P 1500 Index. Additionally, Chemours trades at 18 times trailing earnings, above their own five-year median of 10.5 but below their sector median of 21. If Chemours matches the current consensus profit estimate for 2018 and its trailing P/E drops to 13, its shares will exceed \$65 by early 2019. *Chemours is a Focus List Buy and a Long-Term Buy.*

## Cognizant shares could get jump-started in 2018

**Cognizant Technology Solutions** (\$71; CTSH) enters 2018 with strong operating momentum and an improving outlook. For the 12 months ended September, Cognizant grew per-share profits 17%, sales 9%, cash from operations 27%, and free cash flow 19%. Looking ahead, cost-cutting initiatives should provide a much-needed boost to sagging profit margins in the next couple years. Cognizant is a leading provider of outsourced technology services.

Encouragingly, rival **Accenture** (\$153; ACN) delivered a strong November quarter on broad growth across all geographic markets and raised its guidance for fiscal 2018. Accenture's upbeat report should reflect well on Cognizant. Both companies should benefit from clients increasing their tech budgets for 2018. Moreover, the combination of rising interest rates and potentially lighter regulations on smaller banks could position Cognizant's financial-services customers (accounting for roughly 40% of sales)

## BUYS AND LONG-TERM BUYS

The Buy List represents our top choices for 12-month gains. Focus List stocks, listed in **bold**, represent the best picks among that group. Long-Term Buys are our top choices for 24- to 48-month gains.

If you want your equity portfolio to track the Buy List or Long-Term Buy List, purchase each of the stocks below in the proportion suggested by the target weight. To represent the cash portion of your equity portfolio, hold 0.0% (Buy List) or 3.4% (Long-Term Buy List) in the **Vanguard Short-Term Corporate Bond** (\$79; VCSH) exchange-traded fund.

If you are copying the Focus List, hold a 0.0% fund position and put the rest into equal-dollar positions in the Focus List stocks.

Company (Price; Ticker)	- Target Weight -			Current Fiscal Year			Quadrax Overall Score	52-Wk. Range
	Buy List	LT Buy List	Div. Yield	Est. EPS	% Change	Est. P/E		
• <b>Alphabet</b> (\$106; GOOGL)	3.6%	3.0%	0.0%	\$33.70	-2%	31	87	\$1,086 - \$790
• Amgen (\$176; AMGN)	3.1	2.6	3.0	12.69	9	14	90	191 - 146
• Apple (\$171; AAPL)	3.1	2.6	1.5	11.47	24	15	87	177 - 115
• Applied Materials (\$52; AMAT)	3.1	2.6	0.8	4.00	23	13	99	61 - 32
Carnival (\$67; CCL)	3.1	2.6	2.7	4.26	11	16	74	70 - 52
CBS (\$59; CBS)		2.6	1.2	4.34	6	14	76	71 - 53
• <b>CDW</b> (\$70; CDW)	3.6	3.0	1.2	3.84	12	18	83	72 - 50
• <b>Celgene</b> (\$104; CELG)	3.6	3.0	0.0	7.35	24	14	93	147 - 95
<b>Centene</b> (\$103; CNC)	3.6	3.0	0.0	4.98	13	21	90	105 - 56
<b>Chemours</b> (\$50; CC)	3.6	3.0	1.4	3.69	261	14	86	58 - 21
<b>Citizens Financial</b> (\$42; CFG)	3.6	3.0	1.7	2.58	34	16	97	43 - 32
• Cognizant Technology (\$71; CTSH)	3.1	2.6	0.8	3.72	10	19	89	77 - 52
• <b>Comcast</b> (\$40; CMCSa)	3.6	3.0	1.6	2.06	18	20	82	42 - 34
Comerica (\$87; CMA)	3.1	2.6	1.4	4.76	58	18	95	88 - 64
D.R. Horton (\$51; DHI)	3.1	2.6	1.0	3.25	18	16	88	52 - 27
EQT Midstream Partners (\$72; EQM)		2.6	5.4	5.47	10	13	97	83 - 64
• <b>Facebook</b> (\$178; FB)	3.6	3.0	0.0	5.96	41	30	91	184 - 115
FedEx (\$250; FDX)	3.1	2.6	0.8	13.00	6	19	71	255 - 183
• <b>ICON</b> (\$113; ICLR)	3.6	3.0	0.0	5.37	13	21	91	124 - 74
• Intel (\$46; INTC)		2.6	2.4	3.25	20	14	95	48 - 33
J.P. Morgan Chase (\$107; JPM)	3.1	2.6	2.1	6.90	14	16	84	108 - 82
LabCorp Of America (\$161; LH)	3.1	2.6	0.0	9.53	8	17	67	165 - 127
• <b>Lam Research</b> (\$185; LRCX)	3.6	3.0	1.1	14.59	46	13	99	220 - 105
<b>Lear</b> (\$178; LEA)	3.6	3.0	1.1	16.96	21	11	99	181 - 132
Lowe's Companies (\$92; LOW)	3.1	2.6	1.8	4.53	13	20	90	92 - 70
Magna Int'l (\$57; MGA)	3.1	2.6	1.9 <sup>o</sup>	5.95	14	10	99	58 - 40
Mohawk Industries (\$273; MHK)	3.1	2.6	0.0	13.51	7	20	83	287 - 198
• <b>ON Semiconductor</b> (\$21; ON)	3.6	3.0	0.0	1.43	57	15	99	22 - 12
<b>Owens Corning</b> (\$92; OC)	3.6	3.0	0.9	4.36	20	21	90	92 - 51
Royal Caribbean (\$121; RCL)	3.1	2.6	2.0	7.41	22	16	88	134 - 82
Snap-on (\$175; SNA)		2.6	1.9	10.07	9	17	89	182 - 141
Southwest Airlines (\$66; LUV)	3.1	2.6	0.8	3.56	-5	19	92	67 - 49
Vantiv (\$74; VNTV)		2.6	0.0	3.35	23	22	76	76 - 59
<b>VMware</b> (\$127; VMW)	3.6	3.0	0.0	5.14	NA	25	91	130 - 78
• Zions Bancorp (\$51; ZION)	3.1	2.6	1.3	2.78	39	18	92	52 - 38

• Nasdaq Stock Exchange.  
<sup>o</sup> Dividend yield estimated.

Notes: Quadrax scores are percentile ranks, with 100 the best.

to boost spending on tech projects.

Yet the stock has slipped 2% since September, missing out on the S&P 1500 Index's 6% gain and the tech sector's 9% rally. Cognizant's per-share profits are forecasted to rise 15% for the 12 months ending September, versus median growth of 9% for

tech consulting and services stocks in the S&P 1500 Index. Despite its superior growth profile, Cognizant's stock trades at 16 times estimated year-ahead profits, below its industry median of 20. *Cognizant is a Buy and a Long-Term Buy. Accenture is rated A (above average).*



# ANALYSTS' CHOICE

Recent Price	Dividend	Yield	P/E Ratio	Shares (Millions)	Long-Term Debt as % of Capital	52-Week Price Range
\$57	\$1.10	1.9%	10	370	22%	\$58.07 - \$39.50

## Magna swerves around slowdown

Although the U.S. auto market may tap the brakes again next year, **Magna International's** (\$57; MGA) growth appears set on cruise control. U.S. auto sales fell an estimated 2% in 2017, according to *Blue Chip Economic Indicators*, the first decline since the great recession. U.S. sales are projected to slip another 1% in 2018.

Magna's per-share profits and sales have grown in seven straight quarters, a trend expected to carry into 2018 as the company capitalizes on market-share gains from changing consumer preferences.

Magna is benefiting from the underlying composition of auto sales shifting toward sport-utility vehicles and trucks. Magna supplies more content to such vehicles than it does to passenger cars. The stock is rated a Buy and a Long-Term Buy.

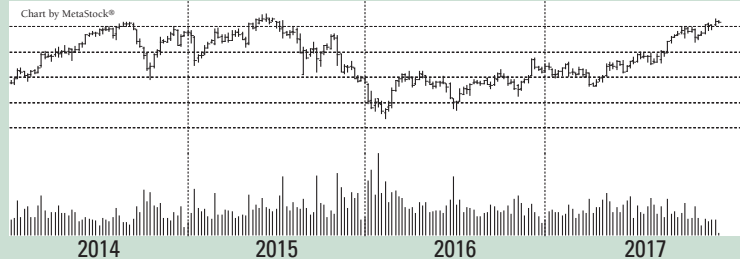
### Reasons for optimism

Aside from Magna's improving product mix, a few other factors tilt in the stock's favor for the coming year: Its diversified operations, high Quadrix scores, and low valuation.

A broad revenue base gives Magna additional shelter from any slowdown in the North American auto market. Operating in 29 countries, Magna has exposure to every major automaker in the world. In the first nine months of 2017, Magna generated 54% of its revenue in North America, 38% in Europe, and 7% in Asia. **General Motors** (\$41; GM) represents 20% of sales, while Volkswagen (\$40; VLKAY), BMW, Daimler, Fiat/Chrysler, and **Ford Motor** (\$13; F) each account for 10% to 16% of revenue.

Magna earns an Overall rank of 99 and Value rank of 96, two Quadrix

## MAGNA INTERNATIONAL



56  
49  
42  
35  
28

Quarter	Per-Share Earnings*	Sales Change	Quarterly Price Range	P/E Ratio Range
Sep '17	\$1.36 vs \$1.29	7%	\$53.74 - \$45.37	10 - 8
Jun '17	1.48 vs 1.41	3	46.60 - 39.50	9 - 7
Mar '17	1.53 vs 1.22	5	46.18 - 41.84	9 - 8
Dec '16	1.24 vs 1.19	8	47.21 - 36.77	9 - 7

Year (Dec.)	Sales (Bil.)	Per-Share Earnings*	Per-Share Dividend	52-Week Price Range	P/E Ratio Range
2016	\$36.45	\$5.16	\$1.00	\$47.21 - \$30.41	9 - 6
2015	32.13	4.72	0.88	59.42 - 40.31	13 - 9
2014	36.64	4.35	0.76	57.24 - 39.96	13 - 9
2013	34.84	3.38	0.64	44.38 - 25.39	13 - 8

\* Earnings exclude special items. † Quadrix scores are percentile ranks.

### Quadrix Scores †

Overall	99
Momentum	68
Value	96
Quality	90
Fin'l Strength	59
Earnings Ests.	91
Performance	81

scores that tend to be highly effective for the stock. Looking back at rolling month-end periods since 1994, Magna has scored above 90 for both Overall and Value 49 times. Following these periods, Magna has proceeded to deliver 12-month returns above the S&P 1500 Index 33 times, a success rate of 67%. It has outperformed the broad index by an average of 6.8% when scoring above 90 for both ranks.

The shares have delivered a total return of 26% over the past six months, tripling the return of the average auto-parts stock in the S&P 1500 Index. Despite that rally, Magna trades at 10 times trailing earnings, versus its industry average of 15.

Unlike most S&P 1500 auto-parts suppliers, Magna has seen its profit estimates rise steadily over the past 90

days. The consensus currently expects the company to grow earnings per share 11% to \$6.63 in 2018, in line with its industry average.

A sharp downturn in U.S. auto sales, weakness in Europe, or a shift away from trucks due to higher fuel prices could cause Magna to miss that growth target. Yet plenty of pessimism already appears baked into the stock price. Magna shares trade at just nine times estimated profits, a 37% discount to the peer-group average.

If Magna matches the current 2018 consensus and its trailing P/E climbs to 12, the shares would approach \$80 over the next 13 months. Magna is known for managing expectations, having topped the consensus profit estimate in 13 of the past 14 quarters.

An annual report for Magna International Inc. is available at 337 Magna Drive, Aurora, Ontario, Canada L4G 7K1, (905) 726-2462, www.magna.com.

For six pages of statistical reports on Magna International, visit [www.DowTheory.com/Go/Page8](http://www.DowTheory.com/Go/Page8).



# DOW THEORY FORECASTS®

Stock Market Trends & Securities Reports Since 1946

January 1, 2018

Quarterly Index for October 2, 2017, through December 25, 2017

A Supplement to *Dow Theory Forecasts*

**NOTE** — Each listing in this index is identified by the volume number, issue number, and page number of its appearance in the *Forecasts*. For example, the reference 73-43: 8 translates into volume 73, issue 43, page 8. Back issues are available for \$10 each by writing us at 7412 Calumet Ave., Hammond, IN 46324, or free to our subscribers on our Web site at [www.DowTheory.com](http://www.DowTheory.com).

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