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Stock Market Trends & Securities Reports Since 1946

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Questions about Quadrix

Q *Why should I pay attention to Quadrix® scores?*

A Because stocks with high scores tend to outperform those with low scores.

In the last 270 rolling 12-month periods, dating back to the end of 1994, S&P 1500 Index stocks scoring in the top quintile (one-fifth) based on Quadrix Overall score outperformed the average stock in the index by an average of 1.8%. Top Overall scorers beat the index average in 171 of the 270 periods, or 63% of the time.

That outperformance equates to annualized excess return of 1.67% a year. That may not sound like much. But a modest excess return, accrued steadily over time, can provide a big boost. Consider that $1 million invested for 20 years at an annualized return of 8% would grow to $4.66 million. However, boost that annual return to 9.67%, and the portfolio swells to $6.34 million, nearly 36% higher.

Quadrix doesn't always work — after all, if it outperformed 63% of the time, that means it underperformed 37% of the time. However, in the stock market's random walk, a 63% success rate means a lot. We

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Tax cuts will boost cash flow

SPECIAL REPORT

With the U.S. economy already plugging along at a healthy clip, Congress slashed the federal corporate tax rate last year to its lowest level since 1939. The new tax law is already juicing corporate profits, and cash flow is likely to follow suit in coming quarters.

The average company currently in the S&P 1500 Index increased adjusted earnings per share 14% in the first quarter of 2018, up from 8% growth in the fourth quarter of 2017. Sales rose by an average of 11%, same as the prior quarter, indicating that not all profit growth stems from tax cuts. See the table on page 5 for more details.

Average cash from operations held flat last quarter, partly because of an increase in one-time items. The new U.S. tax law assessed a one-time tax on corporate profits held overseas, yet gave companies the option to pay those taxes all at once or over the next eight years. Not surprisingly, a lot of companies are choosing to stretch out their tax bills. As a result, the full tax hit was absorbed in 2017 net income, but not operating cash flow. While those drawn-out tax payments will drag on cash flows in coming quarters, we expect the tax-rate change to have a net positive effect, as the effects of the one-time charges pass.

Operating cash flow equals net income plus noncash costs (such as depreciation and amortization) and

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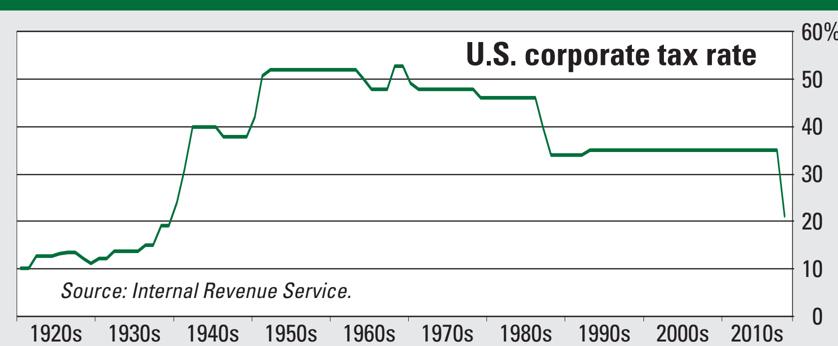
BLAST FROM THE PAST



The U.S. federal corporate tax rate fell to 21% in 2018 from 35%. Federal corporate taxes were last this low in 1939.

Questions about Quadrix

Continued from page 1

don't rely on Quadrix alone to select stocks, but it represents a valuable first step in the analysis process, allowing us to rule out a large swath of the market and focus on only the best prospects for more comprehensive review.

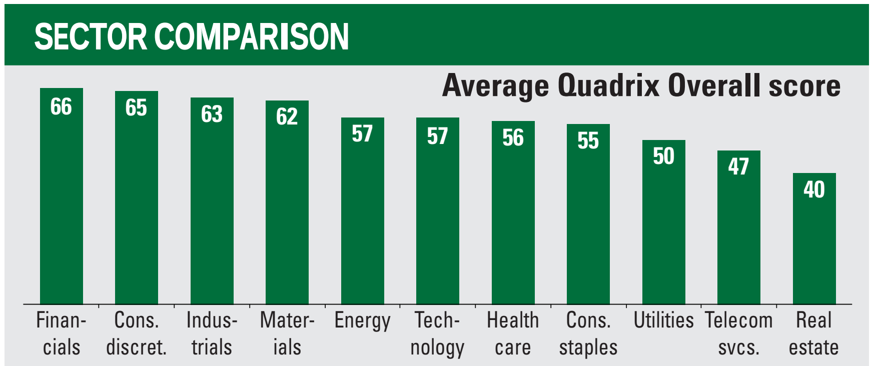
Q *How does Quadrix work?*

A We get this one all the time. Our Quadrix system relies on about 100 statistics in six categories:

➤ **Momentum** (mostly growth statistics for periods of up to 12 months).
➤ **Value** (valuation ratios).
➤ **Quality** (long-term growth and returns on assets, investment, and equity).
➤ **Financial Strength** (mostly balance-sheet metrics and profit margins).
➤ **Earnings Estimates** (trends in analyst profit-estimate revisions).
➤ **Performance** (total returns, mostly for periods of 12 months or shorter).

The Overall score aggregates these six categories to assess fundamental appeal. Very few stocks look good from all angles at the same time. To earn a high Overall score, a stock must do well in multiple areas.

Quadrix's power derives from its breadth of viewpoints. Some categories work better than others, and some only work in concert with the others. For example, Financial Strength scores alone don't do a good job of predicting stock-price action, but the Overall score is less effective without Financial Strength metrics.



Q *Which stocks earn the best Quadrix scores?*

A The answer to this question changes over time. See the chart above for the scores of the 11 market sectors. Only five of the more than 100 industry groups average Overall scores above 75 — forest products, railroads, managed care, automobiles, and airlines. We excluded industries with fewer than five stocks.

You can assess the fundamental appeal of sectors and industries at **www.DowTheory.com**. Login to the **Subscriber Area**, then click on the **Sector and Industry Analysis** link in the **Research Center** section of the left column. From there you can access **Industry Group Studies**, which presents Quadrix scores for more than 100 industry groups, or **Sector Overview**, which compares the 11 sectors within the S&P 1500 Index.

Q *If a stock earns a high Overall score this week, will the score still be high a month from now?*

A We recalculate Quadrix scores at least once a week, usually on Thursday mornings, and most stocks will see their Overall scores change at least slightly. Value and Performance scores rely heavily on stock prices, which explains their volatility. The Earnings Estimates score can also change sharply based on small shifts in estimates. In contrast, Quality and Financial Strength scores rely on statistics that don't change often.

The short answer is that while Overall scores do change, they don't usually make big moves from week to week. However, in any given week, a few stocks will see massive changes. In addition, the scores tend to be more volatile during earnings season, when statistics that make up the Momentum and Quality scores reset based on quarterly results.

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MARKET COMMENTARY

Valid reasons to worry

The Atlanta Fed's GDPNow Model calls for real annualized growth in U.S. gross domestic product for the June quarter of 4.7%, the highest since 2014. While that seems optimistic, the consensus among those polled by *Blue Chip Economic Indicators* is up to 3.5%.

The *Blue Chip* consensus for 2018 is 2.9%, which would match the best full-year growth rate in the last 12 years. For 2019, the consensus is a healthy 2.6%. Using such forecasts, some argue the U.S. is headed toward a sustained breakout in growth from the 2.2% average pace of the last eight years.

Investors don't appear convinced. The industrials sector of the S&P 1500 Index, an economically sensitive group of stocks, has dipped 5% so far in 2018. Similarly, the materials sector is down 4%, while the financials sector is down nearly 5%. The Dow Jones Transportation Average has dropped nearly 3% this year and nearly 7% since June 12.

Copper prices have fallen sharply since early June, while broad indexes of commodity prices have been trending lower since late May.

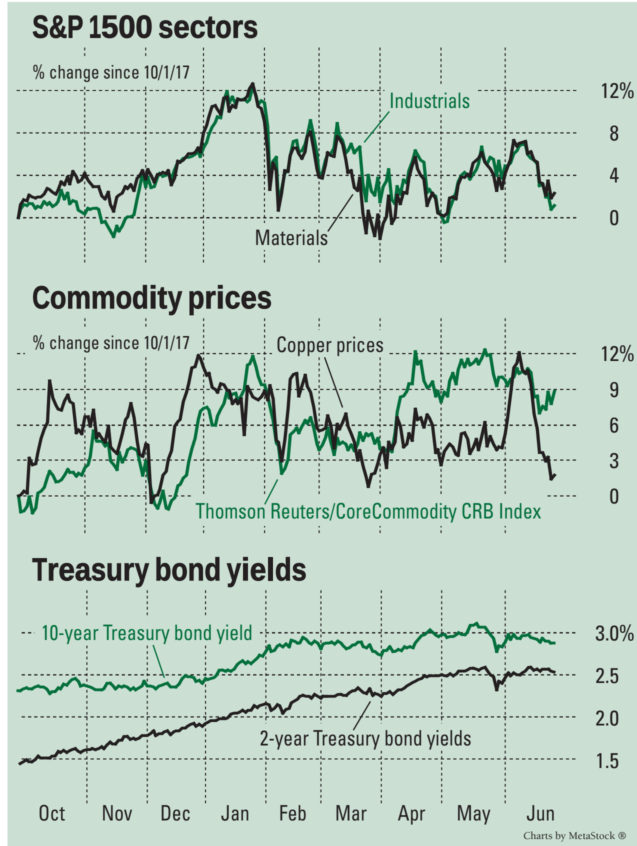
Perhaps most worrisome, the yield advantage of 10-year over two-year Treasury bonds has narrowed to the smallest spread since 2007. Historically, when the yield curve inverts and two-year yields move above 10-year yields, the risk of recession is high. Even if the curve does not invert, today's narrow spread tends to crimp the profitability of banks.

Tariffs and related trade worries appear to be weighing on cyclical stocks, commodity prices, and long-term bond yields. While most economists say the direct impact on U.S. GDP will be negligible at the current level of proposed tariffs, we see valid reasons for worry:

➤ With little sign that cooler heads are close to prevailing, a few more rounds of tit-for-tat tariffs could quickly ratchet up the stakes. In the June 23 *Barron's*, Mark Zandi, chief economist at Moody's Analytics, estimated that a 10% tariff on all U.S.-China trade in both directions would sink GDP by more than 1.3% next year.

➤ Economic models have a hard time measuring the opportunities passed over, the investments delayed, and the supply chains disrupted in a trade dispute. Already, German auto giant **Daimler AG** *($16; DMLRY)* blamed a profit warning on tariffs its U.S.-produced vehicles will face in China, and **Harley-Davidson** *($42; HOG)* announced it plans to move some production overseas to avoid new European tariffs.

➤ Growth rates in Europe and Canada have downshifted this year, and the risk of a sharp slowdown in China was already on the rise before this year's trade frictions. President Trump may think the relative health of the U.S. economy puts him in a stronger negotiating position, but tipping Europe, Canada, or China into recession would be a very bad outcome for U.S. corporate earnings. S&P 500 Index companies generate nearly 40% of income from overseas.



➤ While it's hard to estimate earnings with any precision beyond a year or two, that does not mean earnings or dividends beyond that are meaningless. At a 5% annual discount rate, a $1 dividend received 20 years from now has a present value of $0.38. For a long-term investor who thinks a trade war could blow up a global trading order that has helped push corporate earnings and dividends to record highs, taking some profits may seem prudent.

➤ Even without a potential trade war, the Federal Reserve is raising interest rates in the late stages of an economic expansion. While stocks clearly react to tariff news on day-to-day basis, trade may not be the only reason the market has failed to surpass its January highs.

Conclusion

Without a move above the January all-time highs in the averages, some uncertainty regarding the business outlook will remain — and a somewhat defensive posture will remain appropriate. For now, we're holding 85% to 86% of our buy lists in stocks.

Tax cuts will boost cash flow

Continued from page 1

changes in working capital (such as inventory and accounts receivable). Free cash flow equals operating cash flow minus capital spending and dividends.

Companies are ramping capital investment and returns to shareholders. Capital spending by S&P 500 companies rose 21% to $159 billion in the first quarter of 2018. For the 12 months ended March, S&P 500 companies spent $428 billion on dividends and $573 billion on stock buybacks, for a total of $1.0 trillion, up 10% from a year earlier and higher than any 12-month period since at least 2006.

Quarterly results can be lumpy, especially those involving cash flow. However, several of our recommended stocks are generating strong growth, including three top picks reviewed below.

Discover Financial Services' *($70; DFS)* free cash flow jumped 30% to $4.66 billion in the 12 months ended March, reaching its highest level for any 12-month period since 2009. The company has also increased per-share profits 10%, sales 11%, and cash from operations 27% in the past 12 months.

Robust consumer spending is driving growth. U.S. core retail sales rose 5.6% year-over-year in May, accelerating from April's 4.8% growth. Additionally, the University of Michigan index of consumer sentiment rose in June, surpassing analyst expectations. Discover runs an online bank and supplies personal loans, in addition to its credit cards.

Discover's stock doesn't appear to fully reflect consumer optimism about the economy. The shares have slipped 8% this year and trade at just 11 times trailing earnings, below the median of 16 for consumer-finance stocks in the S&P 1500 Index. Discover trades at nine times estimated 2018 profits, projected to increase 30% on sales growth of 9%. If Discover meets the current consensus profit estimate of $7.73 per share and its trailing P/E ratio rises to 14, the shares would reach $108 by early next year. Discover has topped the consensus profit estimate in eight of the past nine quarters. *Discover is a Buy and a Long-Term Buy.*

Kansas City Southern *($105; KSU)* shares have produced a flat total return this year, as the railroad industry totters under the uncertain fate of U.S. trade strategy. Kansas City Southern's rail network passes through 10 states in the Midwest and Southeast. It also operates a key commercial corridor of the Mexican railroad system.

After months of negotiations, the future of the North American Free Trade Agreement is cloudy at best. If NAFTA collapses and no new agreements are reached, the U.S. and its neighbors would likely face tariffs, potentially reducing shipping volumes for Kansas City Southern and other transportation companies.

For now, both the transportation industry and Kansas City Southern are generating robust operating momentum.

CASH-STRAPPED OPERATING GROWTH

Average per-share-profit growth for companies in the S&P 1500 Index accelerated to 14% in the most recent quarter. But growth trends weakened for both operating cash flow (average growth was flat) and free cash flow (down 6%). In recent quarters, growth of both operating and free cash flow have lagged growth of sales and profits. Averages are for stocks currently in the S&P 1500 and exclude growth rates above 75% or below -75%.

	Average Quarterly Change			
	Last Quarter	*1 Quarter Earlier*	*2 Quarters Earlier*	*3 Quarters Earlier*
Earnings per share	14%	8%	5%	5%
Revenue	11	11	9	9
Operating cash flow	0	3	-1	-1
Free cash flow	-6	-2	-4	-10

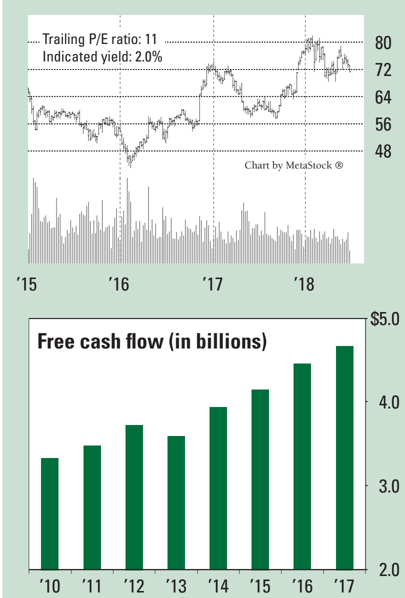
FEW GROUPS GROWING FREE CASH FLOW

Half of the 24 industry groups in the S&P 1500 Index grew operating cash flow over the past 12 months, but just a quarter grew free cash flow. All numbers are averages and exclude companies with growth above 75% or below -75%.

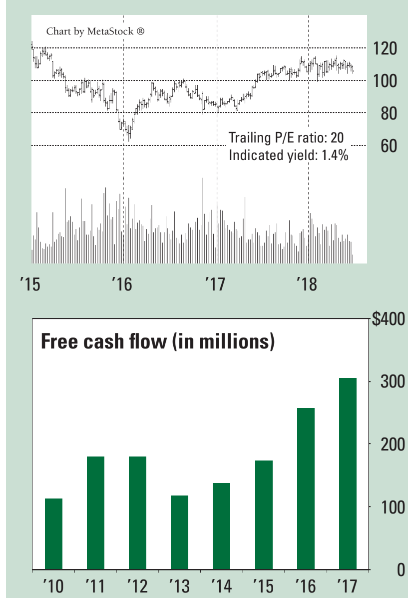
	Avg. 12-Month Change	
S&P 1500 Industry Group	*Operating Cash Flow*	*Free Cash Flow*
Automobiles & components	-4%	-13%
Consumer durables & apparel	-8	-20
Consumer services	4	-7
Media	-5	-10
Retailing	-5	-10
Food & staples retailing	-7	-4
Food beverage & tobacco	-1	-5
Household & personal products	6	8
Energy	5	-3
Banks	NA	NA
Diversified financials	1	-7
Insurance	-1	-1
Health-care equipment & services	2	-4
Pharmaceuticals, biotech & life sciences	5	8
Capital goods	-7	-14
Commercial & professional services	-6	-11
Transportation	3	-14
Semiconductors & equipment	13	5
Software & services	6	3
Technology hardware & equipment	-4	-9
Materials	-3	-4
Real estate	8	-3
Telecommunication services	8	33
Utilities	12	NA
S&P 1500 Index	**0**	**-5**

NA Not available.

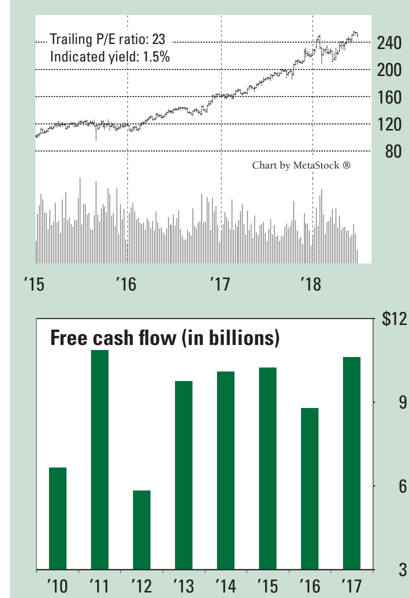
DISCOVER FINANCIAL



KANSAS CITY SOUTHERN



UNITEDHEALTH GROUP



S&P 1500 transport stocks are averaging double-digit growth for both earnings per share and revenue in the last 12 months. Cash-flow gains are tougher to come by, with the industry group averaging just 2% higher cash from operations and 14% *lower* free cash flow. Against that challenging backdrop, Kansas City Southern's free cash flow more than doubled in the year ended March to reach $306 million, its highest level since 2000. Trailing 12-month earnings per share, operating cash flow, and sales currently stand at record highs. *Kansas City Southern is a Buy and a Long-Term Buy.*

UnitedHealth Group *($248; UNH)* continues to exit state health exchanges offered under the Affordable Care Act, which have proved largely disappointing for the insurer. In their place, UnitedHealth has decided to focus on more profitable businesses, such as its commercial and Medicaid Advantage plans, along with its health-services and pharmacy-benefit-manager businesses. That strategy is paying off. UnitedHealth is delivering robust growth for earnings per share (up 29% in the March quarter and 30% over the past 12 months), revenue (13%, 10%), cash from operations (30%, 11%), and free cash flow (34%, 9%).

With management hiking its full-year guidance in April, the consensus now expects 25% higher per-share profits on 12% revenue growth. The stock has rallied 13% this year, dragging its forward P/E ratio down to 20, above its industry median of 18.6 and higher than about 60% of stocks in our research universe. Several industry trends could present upside to current consensus targets. Health-care utilization trends are modest, helping to contain medical costs. The aging U.S. population, rising popularity of Medicare Advantage, and the higher-than-expected 2019 rate hike for Medicare Advantage are encouraging. *UnitedHealth, scoring above 80 for both sector-specific ranks, is being added to the Buy List. The stock was already a Long-Term Buy.*

SHRINKING TAX RATE, RISING CASH FLOW

A lower corporate tax rate could boost momentum for stocks already growing cash flow.

	Tax Rate		12-Mo. Operating Cash Flow		12-Month Free Cash Flow				12-Month Change		
Company (Price; Ticker)	*Latest Quarter*	*Year-Ago Quarter*	*Total (Millions)*	*1-Year Change*	*Total (Millions)*	*1-Year Change*	*Quadrix Overall Score*	*Div. Yield*	*Dividends*	*Share Count*	*Industry Group*
Apple *($184; AAPL)*	15%	25%	$67,442	2%	$41,131	1%	88	1.6%	28%	-4%	Tech hardware
BorgWarner *($45; BWA)*	29	30	1,155	9	435	4	94	1.5	21	-1	Autos & components
Comcast *($32; CMCSa)*	20	32	21,221	7	8,465	15	88	2.4	21	-3	Media
Discover Financial *($70; DFS)*	22	35	5,433	27	4,662	30	93	2.0	17	-8	Diversified financials
Kansas City South. *($105; KSU)*	35	38	1,039	18	306	163	79	1.4	9	-3	Transportation
LabCorp Of America *($179; LH)*	29	31	1,380	7	1,067	6	77	0.0	NA	-1	Health-care equip.
ON Semiconductor *($22; ON)*	10	32	1,112	65	678	40	99	0.0	NA	4	Semicond. & equip.
Raymond James Fin'l *($91; RJF)*	27	33	1,201	87	929	178	92	1.3	36	2	Diversified financials
UnitedHealth *($248; UNH)*	21	30	15,509	11	10,617	9	77	1.5	44	1	Health-care equip.

Notes: Quadrix scores are percentile ranks, with 100 the best. NA indicates no dividends paid.

Two new names and a downgrade

■ **Progressive** *($59; PGR)* is being added to the Buy and Long-Term Buy lists. Arguably best known for its pitchwoman Flo, the company is the one of the largest auto insurers and among the 20 biggest home-insurance providers in the U.S. Car insurance is a particularly competitive market, yet Progressive has posted impressive growth in premiums (up 23% in the March quarter) and policies in force (up 14% for auto).

Underwriting margin has trended higher in recent quarters, reflecting lower catastrophe losses and favorable auto claims. Surging cash flow provides a ready source of funds to help sustain profit growth. In the 12 months ended March, cash flow jumped 46% and free cash flow increased 49%. In the June quarter, Wall Street calls for per-share earnings of $1.05, up 78%. For 2018, per-share earnings are expected to climb 70% on sales growth of 18%.

■ Over the last year, **Marathon Petroleum** *($69; MPC)* grew sales 20%, operating cash flow 66%, and per-share profits more than 200%. Refining operations (53% of operating income) are mostly on the Gulf Coast, with a presence in the Midwest and the East Coast. Marathon also operates the Speedway retail chain (17%) and a pipeline business (30%), which includes the master limited partnership MPLX *($34; MPLX)*. In April, Marathon agreed to purchase Andeavor *($130; ANDV)* in a $35.6 billion deal that would create the largest refiner in the U.S. and top five in the world, as measured by capacity. Marathon spent $3.2 billion on share buybacks in the last 12 months, enough to reduce the share count 9%. While the Andeavor deal will require share issuance, the company authorized a new $5 billion buyback plan, suggesting it plans to keep up the repurchases. *Marathon is being initiated as a Long-Term Buy.*

■ We are dropping **Applied Materials** *($45; AMAT)* from the Buy List, though it remains a Long-Term Buy. President Trump's plan to set export controls on sales to China could potentially embroil semiconductor-equipment makers in a trade war between the U.S. and the industry's third-largest market (14% of industry sales). While we still appreciate Applied Material's leading market position and impressive growth potential, it seems prudent to dial back our enthusiasm. **Lam Research** *($170; LRCX)*, which offers more of a pure play on memory and has delivered superior growth in recent quarters, remains on the Focus List. *Investors following our Long-Term Buy List should keep Applied Materials, while those mimicking the Buy List should sell.*

RANK CHANGES

Progressive *($59; PGR)* is being added to the Buy and Long-Term Buy lists. **Marathon Petroleum** *($69; MPC)* is joining the Long-Term Buy List. **UnitedHealth Group** *($248; UNH)*, already a Long-Term Buy, is being added to the Buy List. **Applied Materials** *($45; AMAT)* is coming off the Buy List but remains a Long-Term Buy. After these changes, the **Vanguard Short-Term Corporate Bond** *($78; VCSH)* exchange-traded fund accounts for 14.2% of the Buy List and 14.3% of the Long-Term Buy List.

* * * * *

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 June, the passcode for the telephone hotline is 423. For July, the passcode is 407.**

CEO resignation shakes up Intel

Brian Krzanich, CEO of **Intel** *($49; INTC)* since 2013, resigned after a company investigation determined he had a consensual romantic relationship with a woman who worked for him. Krzanich is the latest in a string of business and political figures who have lost their jobs because of inappropriate relationships.

During Krzanich's tenure, Intel's share price more than doubled. Since his resignation, the shares have fallen 9%. Intel appointed CFO Robert Swan as interim CEO and began a search for both internal and external candidates to find a replacement; industry analysts don't see Swan as a permanent solution.

On June 21, the same day Krzanich resigned, Intel preannounced stronger-than-expected June-quarter results. The company now projects revenue of $16.9 billion (up 14%) and per-share profits of $0.99 (up 38%), and consensus targets are rising. The full-year 2018 profit consensus has reached $3.99 per share and will probably climb higher, as some analysts have yet to adjust their projections.

CEO transitions always generate an air of uncertainty until new leadership takes over. The suddenness of Krzanich's departure and the need to consider outside candidates because of executive departures in recent years suggest the CEO search could take some time. But with Intel trading at just 13 times the rising 2018 profit target, 24% below the industry median, the shares already reflect plenty of uncertainty. *We'll keep a close eye on Intel, which for now remains a Buy and a Long-Term Buy.*

Corporate roundup

◆ On June 27, **Disney** *($104; DIS)* received antitrust approval for its plan to purchase assets held by **Twenty-First Century Fox** *($49; FOXa)* — as long as it agreed to sell Fox's 22 regional sports networks, which one firm valued last year at more than $22 billion. Fox has accepted Disney's $71 billion bid, which trumped **Comcast's** *($32; CMCSa)* $65 billion offer. This leaves Comcast to make the next move, if there is one. Comcast is reportedly considering teaming up with private-equity investors to fund a new, higher bid. *Comcast is a Focus List Buy and a Long-Term Buy. Disney and Fox are rated B (average).*

◆ Eight passengers have sued **Southwest Airlines** *($50; LUV)* over an April 17 flight during which an engine blowout killed one person and injured several others. The plaintiffs allege Southwest was negligent in its aircraft maintenance. Legal action is common after air disasters and barring unusual developments, such lawsuits rarely affect corporations' operating results. *Southwest, which saw its shares rise 2.2% the day lawsuit was announced, remains a Buy and a Long-Term Buy.*

◆ According to Nielsen data, U.S. viewership of the World Cup fell 44% through the first round of competition, hurt by the lack of a U.S. soccer team in the tournament. Comcast's NBCUniversal and Fox combined to pay more than $1 billion for U.S. broadcast rights to the World Cup. While the viewership decline is eye-catching, it probably didn't surprise either network.

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 14.2% (Buy List) or 14.3% (Long-Term Buy List) in the **Vanguard Short-Term Corporate Bond** *($78; VCSH)* exchange-traded fund.

If you are copying the Focus List, hold a 14.2% fund position and put the rest into equal-dollar positions in the Focus List stocks.

Company (Price; Ticker)	– Target Weight – Buy List	LT Buy List	Market Value (Bil.)	Div.	Div. Yield	Div. Payout Ratio	Quadrix Overall Score	52-Wk. Price Range
• **Alphabet** *($1,117; GOOGL)*	3.0%	2.7%	$840	$0.00	0.0%	0%	61	$1,187 - $895
• Apple *($184; AAPL)*	2.7	2.5	933	2.92	1.6	28	88	194 - 142
• Applied Materials *($45; AMAT)* †		2.5	47	0.80	1.8	20	99	62 - 41
BorgWarner *($45; BWA)*	2.7	2.5	9	0.68	1.5	17	94	58 - 40
Centene *($122; CNC)*	3.0	2.7	22	0.00	0.0	0	85	126 - 79
Chemours *($44; CC)*	3.0	2.7	8	0.68	1.5	15	100	58 - 35
Citizens Financial *($40; CFG)*	3.0	2.7	19	0.88	2.2	31	98	48 - 32
• **Cognizant Technology** *($77; CTSH)*	3.0	2.7	46	0.80	1.0	20	61	85 - 66
• **Comcast** *($32; CMCSa)*	3.0	2.7	152	0.76	2.4	35	88	44 - 30
Comerica *($91; CMA)*	3.0	2.7	16	1.36	1.5	26	94	103 - 64
D.R. Horton *($40; DHI)*	2.7	2.5	15	0.50	1.2	15	97	53 - 34
Discover Financial *($70; DFS)*	2.7	2.5	25	1.40	2.0	22	93	82 - 58
DXC Technology *($79; DXC)*	3.0	2.7	23	0.76	1.0	11	96	108 - 76
EQT Midstream Part. *($51; EQM)*	2.7	2.5	4	4.26	8.3	78	94	79 - 51
• Facebook *($196; FB)*	2.7	2.5	577	0.00	0.0	0	89	204 - 148
FedEx *($230; FDX)*	2.7	2.5	62	2.60	1.1	18	94	275 - 203
• **ICON** *($131; ICLR)*	3.0	2.7	7	0.00	0.0	0	72	138 - 96
• Intel *($49; INTC)*	2.7	2.5	234	1.20	2.5	33	93	58 - 33
J.P. Morgan Chase *($103; JPM)*	2.7	2.5	359	2.24	2.2	30	78	119 - 88
Kansas City Southern *($105; KSU)*	2.7	2.5	11	1.44	1.4	27	79	115 - 99
LabCorp Of America *($179; LH)*	2.7	2.5	19	0.00	0.0	0	77	190 - 147
• **Lam Research** *($170; LRCX)*	3.0	2.7	31	4.40	2.6	28	99	235 - 139
Lear *($195; LEA)*	3.0	2.7	13	2.80	1.4	16	99	206 - 136
Magna Int'l *($60; MGA)*	3.0	2.7	22	1.32 e	2.2 e	21	99	67 - 45
Marathon Petro. *($69; MPC)* NEW		2.5	33	1.84	2.7	47	95	83 - 49
• **ON Semiconductor** *($22; ON)*	3.0	2.7	10	0.00	0.0	0	99	27 - 14
• Paccar *($62; PCAR)*		2.5	22	1.12	1.8	23	96	80 - 60
Progressive *($59; PGR)* NEW	2.7	2.5	34	1.12	1.9	36	96	65 - 44
Raymond James Fin'l *($91; RJF)*	3.0	2.7	14	1.20	1.3	20	92	102 - 74
Southwest Airlines *($50; LUV)*	2.7	2.5	30	0.64	1.3	18	73	67 - 50
UnitedHealth *($248; UNH)* †	2.7	2.5	245	3.60	1.5	33	77	257 - 184
WellCare Health *($242; WCG)*	3.0	2.7	11	0.00	0.0	0	94	245 - 162
• **Zions Bancorp** *($53; ZION)*	3.0	2.7	11	0.96	1.8	29	96	59 - 41

• Nasdaq Stock Exchange. Notes: Quadrix scores are percentile ranks, with 100 the best.
e Dividend and yield estimated. NEW Added to list. † Recent rank change.

Tech roundup

➤ Photo-sharing platform Instagram may be worth more than $100 billion, according to Bloomberg Intelligence. Such a valuation would represent a 100-fold return on **Facebook's** *($196; FB)* investment since it purchased the app in 2012. With 1 billion monthly active users, Instagram may generate more than $10 billion in annual sales, or more than 20% of Facebook's total revenue. *Facebook remains a Buy and a Long-Term Buy.*

➤ In a not-so-subtle dig at Facebook's issues with fake news related to the 2016 presidential election, **Apple** *($184; AAPL)* said it has created a special news section related to U.S. midterm congressional elections. Apple News plans to feature stories from established media outlets, with human editors serving as curators — a policy it has used for years. Rivals **Alphabet** *($1,117; GOOGL)*, Facebook, and Twitter *($44; TWTR)* have also announced plans to limit misinformation in their own election coverage. *Apple is a Buy and a Long-Term Buy. Alphabet is a Focus List Buy and a Long-Term Buy.*

Analysts' Choice

Recent Price	Dividend	Yield	P/E Ratio	Shares (Millions)	Long-Term Debt as % of Capital	52-Week Price Range
$195	$2.80	1.4%	11	68	29%	$206.36 - $135.62

Lear rally still has tread on the tires

Despite a sluggish U.S. automotive market, global vehicle production is on pace to grow for an eighth straight year. That steady expansion has been a boon for auto-parts suppliers like **Lear** *($195; LEA)*, a Focus List Buy and a Long-Term Buy.

Lear sells seats and electrical-power-management systems to just about every carmaker on the planet. It also offers a superior growth profile to most other auto-parts suppliers in the S&P 1500 Index. For the 12 months ended March, Lear grew per-share profits 16% and revenue 12%, above its peer-group averages of 2% lower profits and 11% sales growth. For 2018, Lear is expected to boost per-share profits 16% to $19.64, versus the industry average of 7%.

Lear expects global vehicle production to rise 3% this year. Even if production is flat, Lear seems confident that its revenue could rise about 5%. Both the seating and electrical segments are fueling Lear's above-average operating growth. The seating business is growing at mid-single-digit rates, topping the broad market due to growth in China, and the increasing popularity of SUVs, crossovers, and luxury vehicles.

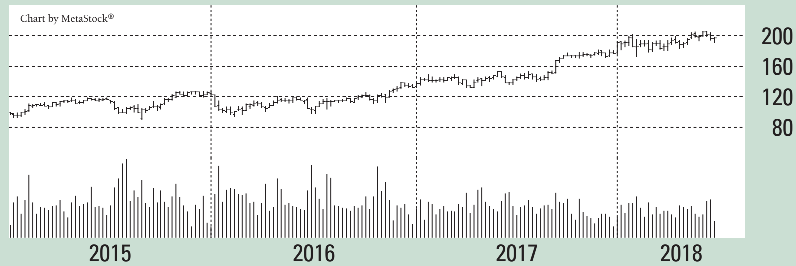
The electrical unit is growing at high-single-digit rates, also above the market, as more vehicles are electrified and wired to meet data and connectivity demands. Management says it now has $1 billion in annual new business related to electrification and connectivity, up from $700 million in January. Lear predicts that 70% of vehicles produced globally will be connected to the internet by 2027 and nearly half will have an electrified powertrain.

Nevertheless, the stock carries risk. Among auto suppliers, Lear could be disproportionally hurt if rising fuel costs crimp sales of larger vehicles. Additionally, escalating trade tensions could disrupt operations in Europe and China, and also threaten negotiations for the North American Free Trade Agreement.

Lear's geographic exposure is broad, with about 40% of 2017 sales coming from Europe and Africa, followed by 19% from the U.S., 15% from Mexico, 12% from China, 4% from Canada, and the remainder from Asia and South America. Because Lear does most of its manufacturing overseas — 62% of its long-term assets and 63% of its employees are outside North America — it has some flexibility to avoid potential tariffs.

After years of steadily improving profitability, operating profit margins have slipped in recent quarters. Lear attributes this recent trend to higher raw-material costs, new-product launches, and joint ventures in China.

LEAR



Quarter	Per-Share Earnings*	Sales Change	Quarterly Price Range	P/E Ratio Range
Mar '18	$5.10 vs $4.27	15%	$202.42 - $172.48	12 - 10
Dec '17	4.38 vs 3.80	16	181.46 - 170.26	11 - 10
Sep '17	3.96 vs 3.19	10	174.66 - 140.45	11 - 9
Jun '17	4.39 vs 3.66	8	153.28 - 132.01	10 - 9

Year (Dec.)	Sales (Bil.)	Per-Share Earnings*	Per-Share Dividend	52-Week Price Range	P/E Ratio Range
2017	$20.47	$17.00	$2.00	$181.46 - $132.01	11 - 8
2016	18.56	14.03	1.20	138.80 - 93.54	10 - 7
2015	18.21	10.85	1.00	127.00 - 89.71	12 - 8
2014	17.33	8.15	0.80	103.74 - 71.57	13 - 9

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

Quadrix Scores†

Overall	99
Momentum	79
Value	87
Quality	95
Fin'l Strength	56
Earnings Ests.	81
Performance	66

Conclusion

Lear is the longest-serving member of our Focus List, added Aug. 1, 2013, at $69 per share. The stock has rallied 10% in 2018 alone yet still looks cheap from virtually every angle. Lear trades at double-digit discounts to its industry average for trailing P/E, forward P/E, price/sales, and price/operating cash flow. If Lear meets the current consensus estimate for 2018 profits and its trailing P/E ratio of 11 rises to 13 (still below its industry average of 16), the stock would reach $255 by late January.

An annual report for Lear Corp. can be obtained at 21557 Telegraph Road, Southfield, MI 48033; (248) 447-1500; www.lear.com.

For six pages of statistical reports on Lear, visit **www.DowTheory.com/Go/Page8**.

DOW THEORY FORECASTS®
Stock Market Trends & Securities Reports Since 1946

July 2, 2018

Quarterly Index for April 2, 2018, through June 25, 2018

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 74-18: 8 translates into volume 74, issue 18, 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**.

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