November 2, 2018

the Prudent Speculator 625

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A terrible October, in which the equity markets had to stage a decent month-end rally only to pare the losses to -6.84% for the S&P 500 and -7.36% for the Russell 3000 index, provided another vivid illustration that volatility is very much a normal part of the investment process. Indeed, though the long-term trend in equities has been up, with data complied by Professors Eugene F. Fama and Kenneth R. French showing that since 1927 Dividend-Payers have returned 10.6% per annum and Value Stocks have enjoyed an annualized return of 13.4%, there have been lots of scary bumps on the road to investment success.

> "Everyone has the brainpower to make money in stocks. Not everyone has the stomach."
>
> — Peter Lynch

In fact, as we have consistently admonished, corrections of 10% happen every 0.9 years and Bear Markets of 20% or more have taken place every 3.6 years. And, believe it or not, we have survived two-dozen setbacks of 12% or more in the S&P 500 since the launch of *The Prudent Speculator* in 1977. Happily, each of those skids have given way to rallies of even greater magnitude, so much so that the S&P 500 has turned in a total return north of 11% per year over the past four-plus decades.

Interestingly, the latest trip south saw the S&P drop 9.8% from its closing high of 2930.75 on Sept. 20 to its closing low of 2641.25 on Oct. 29. Yet, this dip doesn't even count as an "official" correction (the last of which began this year on Jan. 26 and ended on Feb. 8), even as plenty of individual stocks have plunged by far more than 10%.

Not surprisingly, pundits have been quick to offer rationale for the sell-off, with *The New York Times* stating this week, "There are plenty of factors worrying investors: President Trump's trade war with China; the Federal Reserve's stated plans to keep raising interest rates; signs that labor and other costs could climb; and slowing growth in Europe and China. And the tax cuts that increased growth in profits this year will not have the same year-over-year effect in 2019."

These sound like plausible reasons for why folks might choose to flee stocks, but all were concerns six weeks ago when the major market averages were hitting record highs. As such, we might channel American entrepreneur Roger Babson to explain the recent market turmoil, "Perhaps the foremost lesson which I have learned is that emotions rule the world, rather than statistics, information or anything else."

After all, industrial bellwether **Caterpillar** (CAT - $125.79) plunged 19.9% in October, despite posting top- and bottom-line results that topped expectations. Alas, investors bailed due in large part to CAT CFO Andrew Bonfield stating the obvious, "For a company with a $50 billion top line, you can't grow that fast forever, otherwise you would be one of the largest growth stocks rather than a cyclical industrial. That's just not feasible. So, it just becomes the math in the end." Indeed, Q3 U.S. GDP growth was a tailwind for CAT, coming in at 3.5%, while the Federal Reserve has long been projecting growth below 3% in 2019 and 2020, meaning that relatively subdued forward guidance should not have been a surprise. Of course, consensus analyst EPS estimates for CAT now stand at $11.67 this year, $12.92 in 2019 and $14.15 in 2020 (not bad for a $125 stock), and Mr. Bonfield added, "There are lots of factors that people are worried about from a macroeconomic perspective—tariffs, interest rates and so forth—but no single one of those is having an impact or slowing us down yet."

No doubt, we are always braced for near-term downside, as has been the case since 1977, but we are more optimistic today after the pullback. Global economies are still expected to show decent growth over the next couple of years, interest rates remain far below historical norms, Standard & Poor's estimates that bottom-up operating EPS for the S&P 500 will grow to $176.30 next year from $157.13 this year and $124.51 last year, and valuations (TPS Portfolio sports a forward P/E ratio of 11.7 and dividend yield of 2.9%) are now even more reasonable!

John Buckingham
Chief Investment Officer
Al Frank Asset Management (AFAM)

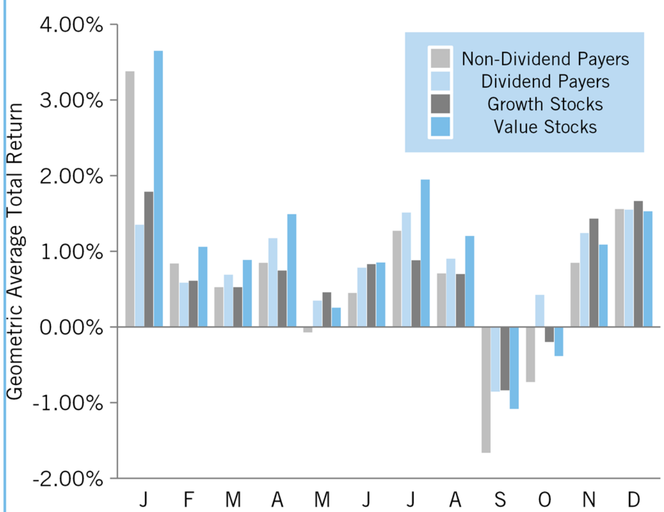
Graphic Detail

Seasonal Favoritism

While the equity markets managed to tread water during often-scary September, it was a real fright-fest in October this time around, as the S&P 500 endured losses of near 4% during two of the four full-week trading periods over the first month of the fourth quarter.

LONG-TERM MONTHLY PERF AVERAGES

September was more or less flat, but October was awful this time around, the combined period living down to its historical bias.



From 12.31.28 through 12.31.17. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

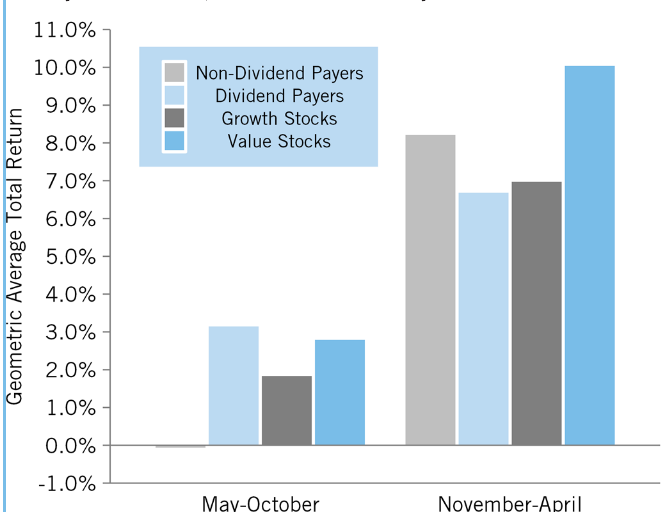
Needless to say, we are happy to see the calendar turn to the seasonally favorable six months of the year. Indeed, the period between Halloween and May Day has seen terrific performance, on average, since 1990 and going all the way back to 1929. And Value Stocks historically have asserted their dominance during this span, even as Non-Dividend Payers have beaten Dividend Payers.

Of course, while some may be tempted to “Sell in May and Go Away,” those six months of the year also have been positive on average. In fact, even with the carnage last month, the less-favorable six-months in 2018 saw the S&P 500 return 3.40%, the Russell 3000 index return 2.70% and the Russell 3000 Value index return 0.90%. We also note that short-term trading strategies generally incur higher transaction costs, while gains generated would be taxed at the much-higher ordinary income rate.

That said, we concede that we often have an extra bounce in our step this time of year as we endeavor to have our portfolios more heavily invested, all things being equal, whereas we sometimes might maintain a little extra cash when Easter has just come and gone. To be sure, as long-term-oriented investors focused on the three-to-five-year prospects of stocks, we have more or less been fully invested since 1977, but we like that the calendar could be a catalyst for some folks to return to equities.

SEASONALITY SINCE 1929

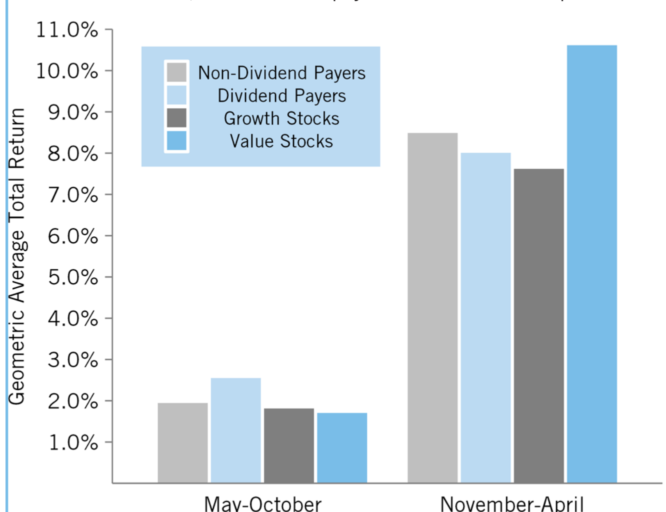
Nice to see that Value has won the performance spoils over the past nearly nine decades, no matter the time of year...



From 04.30.29 through 04.30.18. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

SEASONALITY SINCE 1990

...even as non-dividend payers have held a modest edge, long- and intermediate-term, over dividend payers from November-April.



From 04.30.90 through 04.30.18. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

Graphic Detail

Presidential Cycle

We must always be careful about drawing significant conclusions from a small number of data points, but it is interesting to look at equity market returns in each of the four calendar years of the Presidential Cycle. Given that the Commander in Chief often makes tough choices early on, while doing everything possible to spur the economy late in the four years to ensure personal or party re-election, we suppose that it should not be a big surprise that equities in general have not performed as well on average in the first couple of years of the presidency and much better on average over the last two years.

Of course, the current presidency thus far has been anything but ordinary, yet the 26.7% price appreciation for the S&P 500 since Election Day 2016 has been terrific, especially as so many supposed market experts were predicting that a Trump Victory would lead to big losses in the equity markets. We'll see what 2019 brings, but nine decades of market history show that the S&P has managed a terrific geometric average annual return of 15.2% in the third calendar year of the Presidential Cycle, though the last three such periods were not exactly favorable, with Value Stocks in the red in 2007, 2011 and 2015. Of course, though Dividend Payers and Value Stocks have lagged in the third-year performance derby, few likely would complain about returns in the 13.9% to 16.0% range.

Certainly, we recognize that past performance is no guarantee of future performance or even profitability, and we note that 2017 bucked the trend of less-than-stellar first years, so reader should always view history as a guide and never as the gospel!

PRESIDENTIAL OUT OF THE GATE PERF

The rally since the Trump Victory has been very good, but it ranks only fifth best of post-Election near-two-year returns since 1928.

President Elected	Election No.	Election Date	S&P Price Return
William Jefferson Clinton	53	11.05.96	53.8%
Ronald Reagan	50	11.06.84	43.2%
Barack Obama	57	11.06.12	41.3%
Dwight D. Eisenhower	42	11.04.52	28.8%
Donald Trump	**58**	**11.08.16**	**26.7%**
George W. Bush	55	11.02.04	21.9%
Franklin D. Roosevelt	37	11.08.32	21.7%
Barack Obama	56	11.04.08	17.6%
Harry Truman	41	11.02.48	16.9%
Harry Truman	40	11.07.44	14.5%
William Jefferson Clinton	52	11.03.92	12.5%
George H. Bush	51	11.08.88	10.5%
Dwight D. Eisenhower	43	11.06.56	7.8%
Ronald Reagan	49	11.04.80	3.6%
John F. Kennedy	44	11.08.60	2.6%
Lyndon B. Johnson	45	11.03.64	-5.8%
James E. Carter	48	11.02.76	-9.7%
Franklin D. Roosevelt	39	11.05.40	-16.1%
Richard M. Nixon	46	11.05.68	-19.3%
Franklin D. Roosevelt	38	11.03.36	-23.3%
Herbert Hoover	36	11.06.28	-24.7%
Richard M. Nixon	47	11.07.72	-35.2%
George W. Bush	54	11.07.00	-38.1%
Average			**6.6%**

Price returns are calculated from the day after the presidential election through October 31 of the second year following. SOURCE: Al Frank using data from Bloomberg, Professors Eugene F. Fama and Kenneth R. French and https://www.thegreenpapers.com/Hx/PresidentialElectionEvents.phtml

PRESIDENTIAL THIRD YEAR PERFORMANCE

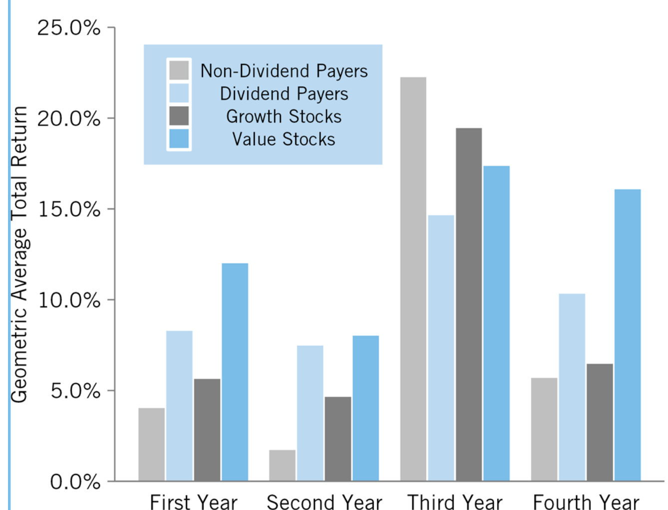
The last three instances have been dismal, but we like how third years have stacked up, on average, since 1931.

President	Year	Value	Growth	Divs	No Divs	S&P
Hoover	1931	-54.0%	-39.9%	-47.4%	-50.8%	-43.3%
Roosevelt	1935	52.8%	42.5%	42.5%	65.3%	47.7%
Roosevelt	1939	-9.5%	10.3%	2.2%	-11.1%	-0.4%
Roosevelt	1943	69.0%	31.7%	30.7%	86.3%	25.9%
Truman	1947	7.4%	-2.5%	4.7%	-13.7%	5.7%
Truman	1951	13.0%	18.9%	20.6%	7.1%	24.0%
Eisenhower	1955	26.9%	20.9%	26.0%	18.6%	31.6%
Eisenhower	1959	18.3%	16.4%	12.9%	15.2%	12.0%
Kennedy	1963	30.6%	14.7%	22.7%	11.4%	22.8%
Johnson	1967	49.3%	56.4%	25.0%	88.2%	24.0%
Nixon	1971	14.4%	25.8%	14.9%	17.9%	14.3%
Nixon	1975	57.5%	47.5%	39.8%	64.5%	37.2%
Carter	1979	31.3%	32.0%	22.5%	61.6%	18.4%
Reagan	1983	37.7%	17.3%	23.0%	20.4%	22.5%
Reagan	1987	-4.3%	-3.1%	3.4%	-4.6%	5.2%
Bush H.	1991	33.9%	48.4%	32.6%	53.3%	30.5%
Clinton	1995	38.4%	33.3%	37.3%	34.9%	37.4%
Clinton	1999	5.5%	37.2%	3.8%	66.6%	21.0%
Bush W.	2003	45.0%	40.2%	27.0%	45.2%	28.7%
Bush W.	2007	-5.7%	9.1%	4.8%	10.7%	5.5%
Obama	2011	-9.3%	-0.8%	1.6%	-4.5%	2.1%
Obama	2015	-8.7%	0.9%	-1.3%	6.3%	1.4%
Geo. Average		**16.0%**	**18.5%**	**13.9%**	**21.5%**	**15.2%**

SOURCE: Al Frank using data from Ibbotson Associates and Professors Eugene F. Fama and Kenneth R. French

PRESIDENTIAL CYCLE PERF BY YEAR

Value has lagged Growth in Presidential Cycle third years, but the 16.0% average annualized geometric return is very good.



From 12.31.28 through 12.31.17. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

All Recommended Stocks

In this space, we now list all of the stocks we own across our multi-cap-value managed account strategies and in our four newsletter portfolios. See the last page for pertinent information on our flagship TPS strategy, which has been in existence since the launch of *The Prudent Speculator* in March 1977.

Readers are likely aware that TPS has long been monitored by *The Hulbert Financial Digest*. As industry watchdog Mark Hulbert states, "The *Hulbert Financial Digest* was founded in 1980 with the goal of tracking investment advisory newsletters. Ever since it has been the premiere source of objective and independent performance ratings

				Target	Price Multiples			EV/	FCF	Debt/	Div	Mkt
Industry Group	Ticker[1]	Company	Price	Price	EPS	Sales	TBV[2]	EBITDA[3]	Yield[4]	TE[5]	Yield	Cap
Technology Hardware	AAPL	Apple	218.86	240.25	19.4	4.1	9.9	11.8	5.4	91%	1.3%	1,057,078
Health Care Equip/Srvcs	ABT	Abbott Laboratories	68.94	76.70	24.5	4.0	nmf	20.7	4.1	nmf	1.6%	121,082
Food, Bev & Tobacco	ADM	Archer-Daniels-Midland	47.25	55.36	15.9	0.4	1.8	12.9	-12.3	40%	2.8%	26,448
Health Care Equip/Srvcs	AET	Aetna	198.40	212.12	18.3	1.1	9.8	10.4	0.9	117%	1.0%	64,956
Transportation	ALK	Alaska Air Group	61.42	97.08	13.5	0.9	4.4	6.6	3.4	98%	2.1%	7,579
Insurance	ALL	Allstate	95.72	117.19	10.8	nmf	1.8	nmf	nmf	nmf	1.9%	32,970
Pharma/Biotech/Life Sci	AMGN	Amgen	192.79	227.63	13.9	5.3	nmf	10.6	7.9	nmf	2.7%	122,849
Diversified Financials	ANH	Anworth Mortgage Asset	4.36	5.45	8.2	nmf	0.8	nmf	nmf	nmf	12.8%	429
Materials	AUY	Yamana Gold	2.27	4.14	nmf	1.6	0.8	nmf	-4.9	49%	0.9%	2,154
Technology Hardware	AVX	AVX Corp	16.68	22.88	14.3	1.6	1.5	7.2	4.0	0%	2.8%	2,814
Insurance	AXAHY	AXA SA	24.97	42.32	8.4	nmf	1.3	nmf	nmf	nmf	4.9%	60,507
Insurance	AXS	Axis Capital Holdings Ltd	55.79	72.27	13.3	nmf	1.1	nmf	nmf	nmf	2.8%	4,662
Insurance	AZSEY	Allianz SE	20.78	28.15	11.3	nmf	1.7	nmf	nmf	nmf	3.4%	88,203
Banks	BAC	Bank of America	27.50	39.46	11.4	nmf	1.6	nmf	nmf	nmf	2.2%	269,890
Materials	BASFY	BASF SE	19.20	33.04	10.5	1.0	3.3	7.0	6.0	88%	3.4%	70,539
Banks	BBT	BB&T Corp	49.16	64.23	12.8	nmf	2.4	nmf	nmf	nmf	3.3%	37,884
Technology Hardware	BHE	Benchmark Electronics	21.83	32.82	14.3	0.4	1.1	5.9	-3.0	16%	2.7%	1,017
Insurance	BHF	Brighthouse Financial	39.63	76.57	nmf	nmf	0.4	nmf	nmf	nmf	0.0%	4,747
Energy	BHGE	Baker Hughes a GE Co	26.69	43.78	50.4	1.3	1.2	18.3	-3.9	26%	2.7%	29,357
Materials	BHP	BHP Billiton Ltd	46.18	57.80	13.8	2.8	nmf	nmf	10.0	nmf	5.5%	116,245
Pharma/Biotech/Life Sci	BIIB	Biogen	304.27	463.21	12.4	4.6	12.4	9.2	8.0	120%	0.0%	61,305
Diversified Financials	BK	Bank of New York	47.33	64.84	11.4	nmf	2.7	nmf	nmf	nmf	2.4%	46,799
Banks	C	Citigroup	65.46	105.36	10.5	nmf	1.1	nmf	nmf	nmf	2.7%	159,862
Health Care Equip/Srvcs	CAH	Cardinal Health	50.60	80.87	10.1	0.1	nmf	19.4	15.0	nmf	3.8%	15,173
Capital Goods	CAT	Caterpillar	121.32	189.32	11.2	1.3	9.4	7.0	3.0	333%	2.8%	71,592
Consumer Services	CCL	Carnival Corp	56.04	83.09	13.4	2.1	1.9	9.0	5.1	40%	3.6%	38,762
Materials	CE	Celanese	96.94	147.07	9.1	1.8	6.0	8.6	11.3	148%	2.2%	12,966
Banks	CM	Canadian Imperial Bank	86.32	113.04	9.5	nmf	2.0	nmf	nmf	nmf	4.8%	38,187
Banks	• CMA	Comerica	81.56	105.38	12.4	nmf	1.8	nmf	nmf	nmf	2.9%	13,188
Media & Entertainment	CMCSA	Comcast	38.14	53.15	15.8	2.0	nmf	8.3	8.3	nmf	2.0%	173,518
Capital Goods	CMI	Cummins Inc	136.69	202.10	10.7	0.9	4.3	7.3	7.2	30%	3.3%	21,947
Diversified Financials	COF	Capital One Financial	89.30	125.53	8.4	nmf	1.3	nmf	nmf	nmf	1.8%	42,301
Semiconductors	COHU	Cohu Inc	20.80	29.40	12.2	2.3	3.8	14.5	7.3	2%	1.2%	846
Technology Hardware	CSCO	Cisco Systems	45.75	52.60	17.6	4.2	23.2	12.8	5.8	227%	2.9%	207,256
Health Care Equip/Srvcs	CVS	CVS Health	72.39	125.41	11.0	0.4	nmf	11.2	7.9	nmf	2.8%	73,698
Transportation	DAL	Delta Air Lines	54.73	74.16	10.4	0.9	nmf	5.8	6.8	nmf	2.6%	37,524
Capital Goods	DE	Deere & Co	135.44	192.08	15.7	1.2	7.6	6.9	-3.5	468%	2.0%	43,567
Media & Entertainment	DIS	Walt Disney	114.83	148.44	17.2	2.9	21.6	11.4	5.6	224%	1.5%	170,780
Real Estate	DLR	Digital Realty Trust	103.26	132.87	15.8	nmf	4.2	nmf	nmf	nmf	3.9%	22,160
Real Estate	DOC	Physicians Realty Trust	16.58	22.99	15.5	nmf	1.2	nmf	nmf	nmf	5.5%	3,018
Transportation	DPSGY	Deutsche Post AG	31.53	56.46	13.6	0.6	174.2	8.1	4.5	nmf	4.3%	38,987
Retailing	DSW	DSW Inc	26.55	34.07	14.4	0.7	2.4	10.4	9.0	0%	3.8%	2,132

As of 10.31.18. N/A=Not applicable. nmf=Not meaningful. [1] •=First-time recommendation. [2]Tangible book value. [3]Enterprise value-to-earnings before interest taxes depreciation and amortization. [4]Free cash flow yield. [5]Tangible equity.
SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

for the industry." For information on all of the newsletter's tracked by Mr. Hulbert, visit the following URL: http://hulbertratings.com/since-inception/.

Keeping in mind that all stocks are rated as "Buys" until such time as we issue an official Sales Alert, we believe that all of the companies in the tables on these pages trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural

Industry Group	Ticker[1]	Company	Price	Target Price	Price Multiples			EV/ EBITDA[3]	FCF Yield[4]	Debt/ TE[5]	Div Yield	Mkt Cap
					EPS	Sales	TBV[2]					
Capital Goods	ETN	Eaton Corp PLC	71.67	93.59	13.8	1.5	nmf	nmf	nmf	nmf	3.7%	31,062
Transportation	FDX	FedEx	220.34	333.96	13.5	0.9	4.7	9.1	-1.7	124%	1.2%	58,063
Banks	FITB	Fifth Third Bancorp	26.99	39.32	11.4	nmf	1.5	nmf	nmf	nmf	2.7%	17,850
Retailing	FL	Foot Locker	47.14	78.13	10.9	0.7	2.4	6.2	13.1	5%	2.9%	5,416
Capital Goods	FLR	Fluor Corp	43.86	57.35	16.0	0.3	2.5	8.2	-3.4	63%	1.9%	6,168
Pharma/Biotech/Life Sci	GILD	Gilead Sciences	68.18	115.30	9.7	4.0	34.2	7.2	9.5	1012%	3.3%	88,225
Technology Hardware	GLW	Corning	31.95	43.91	18.9	2.3	3.1	11.4	2.6	61%	2.3%	25,573
Autos & Components	GM	General Motors	36.59	53.81	5.4	0.4	1.6	2.6	14.4	221%	4.2%	51,643
Media & Entertainment	GOOG	Alphabet	1076.77	1559.87	20.9	5.8	5.0	19.0	3.0	3%	0.0%	753,309
Diversified Financials	GS	Goldman Sachs Group	225.37	306.43	9.1	nmf	1.2	nmf	nmf	nmf	1.4%	88,381
Autos & Components	GT	Goodyear Tire & Rubber	21.06	39.21	7.5	0.3	1.2	5.3	9.0	137%	3.0%	4,907
Energy	HAL	Halliburton	34.68	59.22	17.2	1.3	4.9	10.2	4.6	168%	2.1%	30,381
Energy	HFC	HollyFrontier	67.44	84.94	13.8	0.7	3.0	5.9	8.4	62%	2.0%	11,686
Autos & Components	HMC	Honda Motor Co Ltd	28.50	41.19	5.1	0.4	0.8	6.8	8.5	54%	3.0%	51,626
Banks	HSBC	HSBC Holdings PLC	41.09	59.36	10.9	nmf	0.8	nmf	nmf	nmf	6.2%	163,768
Software & Services	IBM	Int'l Business Machines	115.43	189.68	8.2	1.3	nmf	8.0	12.5	nmf	5.4%	104,902
Banks	ING	ING Groep NV	11.81	19.20	8.1	nmf	0.8	nmf	nmf	nmf	3.7%	45,960
Semiconductors	INTC	Intel	46.88	62.95	10.7	3.1	6.0	7.1	6.6	70%	2.6%	213,960
Materials	IP	International Paper	45.36	73.91	9.1	0.8	5.1	9.3	9.9	292%	4.4%	18,547
Technology Hardware	JBL	Jabil Inc	24.73	45.92	9.4	0.2	3.8	4.0	-2.0	239%	1.3%	4,003
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	139.99	152.38	17.6	4.6	nmf	15.0	4.9	nmf	2.6%	375,450
Technology Hardware	JNPR	Juniper Networks	29.27	38.66	16.0	2.1	7.0	11.1	6.7	124%	2.5%	10,092
Banks	JPM	JPMorgan Chase	109.02	136.95	12.5	nmf	2.0	nmf	nmf	nmf	2.9%	362,536
Banks	KEY	KeyCorp	18.16	26.98	11.0	nmf	1.7	nmf	nmf	nmf	3.7%	18,783
Real Estate	KIM	Kimco Realty	16.09	23.98	10.8	nmf	1.6	nmf	nmf	nmf	7.0%	6,780
Household Products	KMB	Kimberly-Clark	104.30	134.85	15.9	2.0	nmf	13.4	5.8	nmf	3.8%	36,119
Food & Staples Retailing	KR	Kroger Co	29.76	36.97	13.5	0.2	7.7	7.9	2.6	395%	1.9%	23,731
Retailing	KSS	Kohl's Corp	75.73	85.72	15.2	0.6	2.3	6.2	14.1	69%	3.2%	12,625
Retailing	LOW	Lowe's Cos	95.22	124.99	18.9	1.1	17.1	11.6	5.9	331%	2.0%	76,964
Semiconductors	LRCX	Lam Research	141.73	241.18	7.7	2.0	6.2	6.0	9.9	52%	3.1%	21,994
Commercial/Pro Srvcs	MAN	ManpowerGroup	76.29	138.23	8.9	0.2	4.3	6.0	6.9	90%	2.6%	4,951
Health Care Equip/Srvcs	MCK	McKesson	124.76	197.33	9.3	0.1	nmf	20.3	10.8	nmf	1.3%	24,375
Consumer Durables	MDC	MDC Holdings	28.10	49.08	8.5	0.6	1.1	9.4	-8.0	72%	4.3%	1,586
Health Care Equip/Srvcs	MDT	Medtronic PLC	89.82	104.75	18.6	4.1	nmf	14.8	3.8	nmf	2.2%	121,303
Insurance	MET	MetLife	41.19	71.20	9.4	nmf	1.0	nmf	nmf	nmf	4.1%	40,977
Materials	MOS	Mosaic Co	30.94	47.21	22.6	1.5	1.4	11.6	3.8	56%	0.3%	11,926
Pharma/Biotech/Life Scin	MRK	Merck & Co	73.61	82.13	17.2	4.7	nmf	21.3	2.6	nmf	3.0%	195,768
Semiconductors	MRVL	Marvell Tech	16.41	26.19	13.0	4.3	nmf	27.8	4.9	nmf	1.5%	10,804
Software & Services	MSFT	Microsoft	106.81	123.28	25.6	7.2	19.4	16.1	3.9	177%	1.7%	825,525
Semiconductors	MU	Micron Technology	37.72	84.76	3.2	1.4	1.4	2.1	19.6	12%	0.0%	42,784
Materials	NEM	Newmont Mining	30.92	41.67	23.1	2.3	1.6	9.5	4.6	38%	1.8%	16,470
Energy	NOV	National Oilwell Varco	36.80	47.58	nmf	1.8	3.1	22.1	1.5	60%	0.5%	14,108

As of 10.31.18. N/A=Not applicable. nmf=Not meaningful. [1] •=First-time recommendation. [2]Tangible book value. [3]Enterprise value-to-earnings before interest taxes depreciation and amortization. [4]Free cash flow yield. [5]Tangible equity.
SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

All Recommended Stocks (cont.)

corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

While we always like to state that we like all of our children equally, meaning that we would be fine in purchasing any of the 100+ stocks, we remind subscribers that we very much advocate broad portfolio diversification with TPS Portfolio holding more than 80 of these companies. Of course, we respect that some folks may prefer a more concentrated portfolio, but our minimum comfort level in terms of number of overall holdings is at least 30!

				Target	Price Multiples			EV/	FCF	Debt/	Div	Mkt
Industry Group	Ticker[1]	Company	Price	Price	EPS	Sales	TBV[2]	EBITDA[3]	Yield[4]	TE[5]	Yield	Cap
Transportation	NSC	Norfolk Southern	167.83	190.75	19.4	4.1	3.0	11.3	4.1	69%	1.9%	45,708
Materials	NTR	Nutrien Ltd	52.93	67.63	12.0	1.7	3.1	nmf	nmf	73%	3.0%	32,402
Telecom Services	NTTYY	Nippon Telegraph	40.50	64.06	9.9	0.8	1.4	4.7	14.1	42%	2.9%	78,991
Banks	NYCB	New York Community Banc	9.58	13.36	12.3	nmf	1.2	nmf	nmf	nmf	7.1%	4,697
Energy	OII	Oceaneering International	18.94	28.62	nmf	1.0	1.8	14.2	-4.8	75%	0.0%	1,866
Banks	ONB	Old National Bancorp	17.85	24.11	15.0	nmf	2.0	nmf	nmf	nmf	2.9%	2,719
Software & Services	ORCL	Oracle	48.84	59.35	15.1	4.6	nmf	11.2	7.1	nmf	1.6%	185,037
Pharma/Biotech/Life Sci	PFE	Pfizer	43.06	48.68	14.4	4.7	nmf	13.9	6.1	nmf	3.2%	252,422
Banks	PNC	PNC Financial Services	128.49	169.47	12.5	nmf	1.6	nmf	nmf	nmf	3.0%	59,658
Insurance	PRU	Prudential Financial	93.78	138.75	8.0	nmf	0.8	nmf	nmf	nmf	3.8%	39,106
Semiconductors	QCOM	Qualcomm	62.89	81.04	17.0	4.0	7.0	24.0	6.3	116%	3.9%	92,392
Consumer Services	RCL	Royal Caribbean Cruises Ltd	104.73	150.46	12.1	2.4	2.2	11.4	2.2	77%	2.7%	21,888
Energy	RDS/A	Royal Dutch Shell PLC	63.19	93.25	12.7	0.3	1.4	7.0	3.8	41%	5.1%	267,727
Real Estate	REG	Regency Centers	63.36	91.25	16.7	nmf	1.7	nmf	nmf	nmf	3.5%	10,746
Banks	SCGLY	Societe Generale SA	7.30	13.36	6.1	nmf	0.5	nmf	nmf	nmf	5.7%	29,489
Energy	SFL	Ship Finance International Ltd	12.50	16.20	13.9	3.9	1.2	13.8	-31.4	95%	11.2%	1,492
Pharma/Biotech/Life Sci	SHPG	Shire PLC	181.80	241.31	11.7	3.6	nmf	13.2	6.9	nmf	1.0%	55,436
Capital Goods	SIEGY	Siemens AG	57.44	90.58	13.1	2.1	12.3	10.6	4.7	384%	2.9%	97,648
Energy	SLB	Schlumberger Ltd	51.31	99.20	29.3	2.2	28.8	23.1	4.9	573%	3.9%	71,064
Pharma/Biotech/Life Sci	SNY	Sanofi	44.72	60.25	14.5	5.6	34.6	15.8	nmf	nmf	3.3%	112,055
Technology Hardware	STX	Seagate Technology PLC	40.23	56.02	7.3	1.0	nmf	6.5	15.1	nmf	6.3%	11,583
Diversified Financials	SYF	Synchrony Financial	28.88	50.79	8.6	nmf	1.7	nmf	nmf	nmf	2.9%	20,757
Software & Services	SYMC	Symantec	18.15	30.03	10.7	2.4	nmf	20.6	8.3	nmf	1.7%	11,594
Telecom Services	T	AT&T	30.68	41.80	8.9	1.4	nmf	8.5	9.6	nmf	6.5%	223,044
Retailing	TGT	Target	83.63	94.17	16.5	0.6	4.2	8.0	7.8	97%	3.1%	44,019
Energy	TNP	Tsakos Energy Navigation Ltd	3.30	5.58	nmf	0.6	nmf	9.9	nmf	nmf	6.1%	288
Energy	TOT	Total SA	58.60	86.84	12.4	0.9	1.2	7.3	2.9	30%	4.2%	157,229
Capital Goods	TPC	Tutor Perini	15.50	30.37	9.9	0.2	0.7	6.8	8.5	75%	0.0%	775
Consumer Durables	TPR	Tapestry Inc.	42.31	60.13	15.7	2.1	nmf	13.7	6.0	nmf	3.2%	12,254
Capital Goods	TRN	Trinity Industries	20.55	39.69	12.8	1.2	1.2	8.2	-14.5	94%	2.5%	4,177
Food, Bev & Tobacco	TSN	Tyson Foods	59.92	86.08	10.0	0.6	nmf	8.9	8.7	nmf	2.0%	23,838
Telecom Services	VZ	Verizon Communications	57.09	66.98	12.8	1.8	nmf	7.9	6.9	nmf	4.2%	235,897
Food & Staples Retailing	WBA	Walgreens Boots Alliance	79.77	114.94	13.3	0.6	nmf	11.3	8.8	nmf	2.2%	75,715
Banks	WFC	Wells Fargo & Co	53.23	67.26	13.4	nmf	1.7	nmf	nmf	nmf	3.2%	250,798
Consumer Durables	WHR	Whirlpool	109.76	207.20	7.9	0.3	nmf	15.8	0.2	nmf	4.2%	7,004
Food & Staples Retailing	WMT	Walmart	100.28	111.65	21.1	0.6	5.5	10.7	6.1	89%	2.1%	293,694
Materials	WRK	WestRock	42.97	77.95	11.7	0.7	4.1	6.7	9.9	225%	4.0%	10,962
Retailing	WSM	Williams-Sonoma	59.38	85.12	15.0	0.9	4.8	7.7	8.0	30%	2.9%	4,783
Energy	XOM	Exxon Mobil	79.68	101.25	20.8	1.3	1.8	10.8	4.0	11%	4.1%	337,350
Health Care Equip/Srvcs	ZBH	Zimmer Biomet Holdings	113.59	167.87	15.0	2.9	nmf	17.3	5.7	nmf	0.8%	23,114

As of 10.31.18. N/A=Not applicable. nmf=Not meaningful. [1] ●=First-time recommendation. [2]Tangible book value. [3]Enterprise value-to-earnings before interest taxes depreciation and amortization. [4]Free cash flow yield. [5]Tangible equity.
SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

Portfolio Builder

Research Team Highlights

The Prudent Speculator follows an approach to investing that focuses on ***broadly diversified*** investments in ***undervalued*** stocks for their ***long-term*** appreciation potential. Does that mean we build portfolios of 20 stocks…30…? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which," but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

As for the "in which" part, readers should know we discriminate among potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We buy only those stocks we find to be undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. Our Target Prices incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal three-to-five-year investing time horizon.

Each month in this column, we highlight 10 stocks with which readers might populate their portfolios. The list is not selected based on performance, as the following methodological hierarchy is utilized: 1) First time recommendations; 2) Stocks that are unowned or under-owned in one of our four newsletter portfolios; 3) Companies that have not been highlighted in the prior five monthly editions of *The Prudent Speculator*; 4) Editor's choice. Note that we are in no way suggesting that these stocks replace those featured in prior months as we will always issue a *Sales Alert* should we choose to exit a position.

Portfolio Builder Notes

Still having a few bucks in our newsletter portfolios, we will buy $30,000 of **Comerica** and **Physicians Realty** in TPS Portfolio, while we will bring the ownership of **IBM** in Buckingham Portfolio up to $8,000. We will add $20,000 of **Alaska Air** to PruFolio, as well as $10,000 of **Alphabet**, **Carnival Corp** and **Regency Centers** to Millennium Portfolio. We already have sufficient company/sector exposure in **Corning, HollyFrontier**, **Sanofi** and **Tapestry**, so no additional purchases of those four this month. We will wait two trading days, until November 6, to transact.

NOVEMBER 10-STOCK SELECTION

Ticker	Company	Sector	Price	Target Price
ALK	Alaska Air Group	Industrials	61.42	97.08
CCL	Carnival	Consumer Discretionary	56.04	83.09
CMA	Comerica	Financials	81.56	105.38
DOC	Physicians Realty Trust	Real Estate	16.58	22.99
GLW	Corning	Information Technology	31.95	43.91
HFC	HollyFrontier	Energy	67.44	84.94
IBM	Int'l Business Machines	Information Technology	115.43	189.68
REG	Regency Centers	Real Estate	63.36	91.25
SNY	Sanofi	Health Care	44.72	60.25
TPR	Tapestry	Consumer Discretionary	42.31	60.13

As of 10.31.18. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

Alaska Air Group (ALK)

Alaska Air provides passenger, mail and freight air service to more than sixty cities in three countries through its Alaska Airlines and Horizon Airlines subsidiaries. Its Virgin America brand is being phased out as ALK integrates the recently acquired assets into its operations. ALK earned $1.91 per share in Q3, versus the $1.87 consensus estimate. Shares have been range-bound this year as worries like climbing fuel prices or rising interest rates and tailwinds like lower capacity or strong passenger demand take turns pushing the stock price down and up. We think that the moderation of capacity earlier in the year was a good thing, as it allowed ALK to fly with higher load factors and we note that 2018 looks to be a trough year with EPS estimated to come in around $4.16, while projections for 2019 and 2020 are markedly better at $5.69 and $7.13, respectively. Alaska also begins taking deliveries next year of the fuel-efficient and highly capable 737 MAX and swapped MAX 8 orders for the larger MAX 9 models. We think that Alaska has done a solid job defending its market share in the Pacific Northwest by offering travelers low fares and a top-level customer experience. ALK trades for 12 NTM times earnings and yields 2.1%.

Carnival (CCL)

Carnival is the world's largest cruise ship operator with over 100 vessels across 10 brands and sailings from ports around the globe. Shares have dipped recently (and are off more than 14% this year), despite a strong Q3, as investors were concerned about currency hurdles and fuel costs. Despite those negatives, CCL reported one of its strongest quarters ever, with adjusted EPS of $2.36 on revenue of $5.84 billion. While near-term headwinds will continue to blow, we maintain our long-term optimism on CCL and the overall cruise industry, given favorable demographic trends and the fact that there are still meaningful growth opportunities in emerging economies, which are encouraging for global revenue diversification and the ability to rapidly reach a new customer base. CCL trades for 13 times earnings and yields 3.6%.

Comerica (CMA)

Comerica is a financial services company headquartered in Dallas and strategically aligned by three business segments: The Business Bank, The Retail Bank and Wealth Management. CMA also has a notable presence in Michigan and California. The company's lending portfolio focuses primarily on Commercial and Industrial loans and Commercial Real Estate. CMA holds the number 10 deposit market share in TX, number 2 in MI and number 12 in CA. CMA turned in a solid bottom-line print for Q3, reporting adjusted EPS of $1.86, versus consensus expectations of $1.77, though the quarter also showed seasonally soft loan growth and a slight downtick in net interest margin. "In the third quarter, we continued to grow revenue, excluding securities losses, as well as maintain favorable credit metrics and well-controlled expenses," said CEO Ralph W. Babb, Jr. "We took action to enhance our future returns by significantly increasing our share repurchases and dividend." CMA is no longer considered a significant financial institution by the Federal Reserve, but still seemingly trades like one, though it has more balance sheet flexibility now to drive future EPS growth and return capital to shareholders. Despite having one of the most attractive deposit franchises, CMA trades for just 11 times NTM adjusted EPS estimates and yields 2.9%.

Physicans Realty Trust (DOC)

Physicians Realty is a small-cap health care REIT that acquires, owns and manages health care properties that are leased to physicians, hospitals and healthcare delivery systems, and other health care providers. Its properties are typically on a campus with a hospital or strategically located and affiliated with a hospital or physician organization. Shares have recovered modestly from the February low, but we think that the company's latest earnings report (Q3 FFO: $0.28 vs. $0.27 est.) gives reason to be enthusiastic about the near-6% yielder. CEO John Thomas said, "Our recent acquisition of Northside Medical Midtown MOB in Atlanta, Georgia, represents the type of strategic acquisition that we believe to best deliver value in today's market. This transaction not only improves the overall quality of our portfolio, but also expands our strong partnership with Northside Hospital." In addition to strong fundamentals, we appreciate the unique exposure DOC offers in a diversified portfolio and like the expertise and experience of the management team, the favorable demographic trends and focus on leveraging its physician and hospital relationships nationwide. Of its 13.6 million square feet of leasable space, almost 96% is filled with a weighted-average lease term of 8.2 years.

Corning (GLW)

Corning is the leading designer/manufacturer of glass and ceramic substrates found in liquid crystal displays, fiber-optic cables, automobiles and laboratory products. GLW reported Q3 EPS of $0.51 (vs. $0.48 est.) and had sales of $3.05 billion (vs. $2.99 billion est.). The company benefitted from strong growth (19% y/y or better) in the Optical, Environmental and Specialty Materials segments. "We continue to make significant progress across all our market access platforms. We leverage our investments to meet increased demand from our customers, grow sales and significantly improve profitability in the third quarter. We will continue to reap the benefits of those investments in the future and are very well positioned to deliver strong growth for the remainder of the year and beyond," said CEO Wendell Weeks. Corning increased 2018 revenue guidance to more than $13 billion with a gross margin of 42%. Corning remains focused on its "Strategy and Capital Allocation" framework, which targets $26 billion to $30 billion in cash generation through 2019 and the return of more than $12.5 billion to investors. GLW yields 2.3%.

HollyFrontier (HFC)

Holly is one of the largest independent petroleum refiners in the U.S. Through five complex refineries (which process lower-cost heavy sour crude into a higher percentage of fuel), its subsidiaries produce and market gasoline, diesel, jet fuel, asphalt, heavy products and specialty lubricant products. HFC shares have surged this year (causing us to trim positions on two occasions), though challenges such as U.S. oversupply of gasoline and refinery shutdowns have weighed on the stock in the second half of the year. In Q3, HFC earned $1.98 per share, versus the consensus estimate of $1.66, on $4.8 billion of revenue (vs. $4.3 billion est.). Even though shares jumped 7% on the news, we think that HFC has room to run as volatile refining margins have been improving and the company is expected to earn $7.55 next year (resulting in a 2019 P/E below 9). We also like that HFC's refinery capabilities give the firm flexibility to tailor its output more towards higher margin products in a given period. Shares yield 2.0%.

Int'l Business Machines (IBM)

IBM is a leading provider of enterprise solutions, offering a broad portfolio of IT hardware, business and IT services, and a full suite of software solutions. As the Info Tech sector has exploded, IBM has struggled to keep up. Under the leadership of Ginni Rometty, the company created a set of 'Strategic Imperatives,' which were to be the guiding light for IBM's future. While these have grown from zero to half of the company's trailing 12-month revenue in a few years, the company's aversion to big mergers and late arrival to the data center 'dance' put it in an unenviable position. We think that the just-announced $34 billion purchase of Red Hat, a provider of open source software, offers hope that IBM may finally have turned to a new chapter, though a hefty price is being paid. Red Hat's OpenShift software runs on private clouds (owned by one company) or public clouds (like AWS or Microsoft Azure), and could finally let Watson, IBM's learning engine, grow nearer to its potential. Assuming it can close the acquisition and overcome the integration risks, we believe it will be better able to keep up with its cloud computing peers. IBM estimates that the global Cloud is only 20% built out, so there is plenty of growth potential, yet its stock trades for just 8.4 times earnings and yields 5.4%.

Regency Centers (REG)

Real estate investment trust (REIT) Regency Centers is a national owner, operator and developer of neighborhood and community shopping centers. The company's portfolio is primarily anchored by productive grocers and is located in affluent and attractive more-populated metro areas. REG had a difficult 2017 and made up some ground in the first part of 2018, but we think more upside remains. The company's Q3 results (FFO was $0.96 vs. $0.95 est.) were solid and CEO Hap Stein said, "The best-in-class retailers continue to make sizable investments in their bricks-and-mortar footprints. Based upon our many conversations that we've had with key retailers it is clear that physical stores remain a very a critical component of a multi-channel strategy. For example, Target has expressed their commitment to bricks and mortar and indicated that the store is the central part of their strategy. They plan to remodel all stores by 2020, continue to open their very successful small format store and are investing in their team as well as pickup and delivery service." We believe that brick-and-mortar retail is very much alive, and we like company projections for 2018 full-year FFO of between $3.76 and $3.79 per share. The yield is 3.5%.

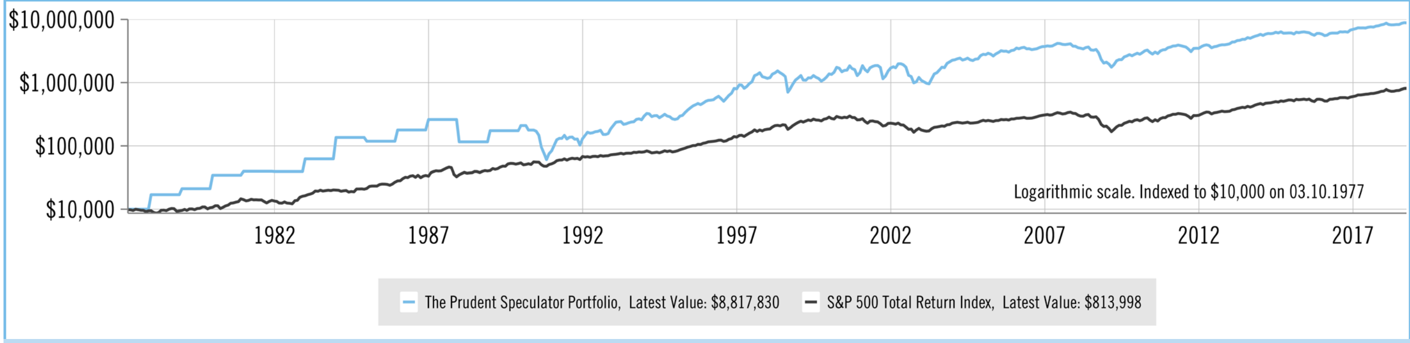
Sanofi (SNY)

Sanofi is a global integrated health care company focused on Diabetes Solutions, Vaccines, Genzyme, Emerging Markets, Consumer Health Care, Animal Health and Other Innovative Products. We saw SNY's Q3 results as strong, beating expectations on the top and bottom-line. SNY reported adjusted EPS of $1.07 on revenue of $10.9 billion that was largely driven by growth in the rare-disease and immunology segments. We continue to think these areas represent key growth drivers in the coming years. For example, SNY realized solid sales from newer immunology drug Dupixent, which has strong pricing power and blockbuster drug potential. While it seems likely that the diabetes franchise will continue to be a drag on returns, albeit at a decelerating rate, we believe that many under-appreciate Sanofi's strong competitive position in specialty drugs. SNY yields a net 3.3%.

Tapestry (TPR)

Tapestry, formerly Coach, is best known for accessories (especially handbags) and is a leading specialty retailer positioned in the appealing affordable luxury segment. While much of its growth outside the U.S. over the last few years has been concentrated in Japan, the company is also focused on Europe, China and other emerging markets. TPR earned $0.48 per share in fiscal Q1 2019, compared with a $0.45 consensus estimate. CEO Victor Luis said, "We've been successfully addressing the challenges in our supply chain and will be fully backed to quality and on-time deliveries this quarter. We remain excited about the opportunities for the brand across geographies, classifications and categories, and are confident in our long-term vision under Eraldo Poletto's leadership and the very talented team he has built at Stuart Weitzman." While TPR benefits nicely from a lower tax rate, we are keeping an eye on tariffs (management says they impact less than 5% of production). We continue to like the strong global brand with loyal customers and the 3.2% yield.

THE PRUDENT SPECULATOR (TPS) PORTFOLIO STANDARDIZED PERFORMANCE



Performance as of 09.30.18	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year	15-Year	20-Year	25-Year	Inception
TPS Portfolio	6.19	5.45	12.53	16.23	10.98	16.15	11.52	11.49	12.66	15.09	17.75
S&P 500	7.71	10.56	17.90	17.30	13.94	16.90	11.96	9.65	7.42	9.80	11.18
Russell 3000	7.12	10.57	17.58	17.07	13.46	16.86	12.01	9.86	7.82	9.79	N/A
Russell 3000 Value	5.39	4.17	9.46	13.75	10.65	15.04	9.76	8.93	7.80	9.50	N/A

Year	Total Firm Assets[1]	Composite Total Assets[1]	# of Accounts	Composite Gross Return (%)	Composite Net Return (%)	Bench Return (%)	Bench 2 Return (%)	Bench 3 Return (%)	Composite 3-Yr STD (%)	Bench 3-Yr STD (%)	Bench 2 3-Yr STD (%)	Bench 3 3-Yr STD (%)	Composite Dispersion (%)	Wrap-Fee Paying (%)	Non-Fee Paying (%)
2017	946	18.92	42	19.78	18.83	21.84	21.13	13.20	11.04	10.06	10.23	10.48	0.34	6.93	17.48
2016	711	7.00	10	18.43	18.02	11.96	12.73	18.42	12.05	10.74	11.04	11.12	N/A	5.60	39.89
2015	701	N/A	<6	-4.23	-4.23	1.38	0.48	-4.13	12.01	10.62	10.73	10.90	N/A	<1	100
2014	827	N/A	<6	5.35	5.35	13.69	12.56	12.69	11.36	9.10	9.42	9.49	N/A	<1	100
2013	788	N/A	<6	41.07	41.07	32.39	33.55	32.69	14.60	12.11	12.71	13.08	N/A	<1	100
2012	676	N/A	<6	17.98	17.98	16.00	16.42	17.56	17.74	15.30	15.95	16.03	N/A	<1	100
2011	476	N/A	<6	-2.35	-2.35	2.11	1.03	-0.09	21.42	18.16	18.86	19.98	N/A	<1	100
2010	486	N/A	<6	22.44	22.44	15.06	16.93	16.24	26.82	22.16	22.94	23.83	N/A	<1	100
2009	451	N/A	<6	38.60	38.60	26.46	28.34	19.74	24.70	19.91	20.60	21.65	N/A	<1	100
2008	370	N/A	<6	-44.01	-44.01	-37.00	-37.31	-36.25	N/A	N/A	N/A	N/A	N/A	<1	100

IMPORTANT INFORMATION

[1]Presented in millions. Note that October 2018 Composite calculations cannot be completed until after press-time. AFAM Capital Inc. (AFAM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. AFAM has been independently verified for the periods January 1, 1996 through December 31, 2015 by Ashland Partners & Company LLP. From January 1, 2016 through December 31, 2016, AFAM Capital was independently verified by ACA Performance Services, LLC. A copy of the verification report(s) is/are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation. The firm had assets under management of approximately $756 million as of September 30, 2018.

AFAM underwent an organizational change effective October 1, 2018, and is now part of Kovitz Investment Group Partners, LLC (KIG). KIG, an investment adviser registered under the Investment Advisers Act of 1940, manages equity, fixed income, and hedged equity portfolios for its clients. The same persons responsible for managing the portfolios in the composite (Composite) shown are currently responsible for portfolio management after the organizational change, and have been providing the same services throughout the entire period shown.

The Composite was created December 31, 2015, and the inception date for portfolio performance was March 10, 1977. The Composite includes all discretionary portfolios managed according to the TPS strategy (Strategy). From March 10, 1977 through December 31, 2015, the Composite consisted of 1 portfolio managed according to the Strategy. The portfolios eligible for the Composite must follow the Strategy. The minimum account size for inclusion in the Composite is $50,000. Composite policy originally required the temporary removal of any portfolio incurring an aggregate net cash flow of at least 25% of portfolio assets. On July 1, 2016, the cash flow policy was updated to reflect the temporary removal of any portfolio incurring cash inflow or outflow of 25% or more during the month – "net" and "aggregate" are no longer applicable. The removal of such a portfolio occurs at the beginning of the month in which the significant cash flow occurs, and the portfolio re-enters the Composite at the beginning of the month after the cash flow. This policy is reviewed and maintained monthly. The Composite includes portfolios that utilize margin. The firm maintains a complete list and description of Composites, which is available upon request.

The U.S. Dollar is the currency used to express performance. The Composite includes portfolios that are charged bundled or wrap fees and portfolios are charged transaction fees or trading costs. Bundled fee portfolios pay a fee based on a percentage of assets under management in place of a transaction fee. They include the advisor's fee and, in most cases, also include a fee for investment management and portfolio monitoring. Returns are presented net of management fees, gross of withholding taxes on any dividends, interest or capital gains, and include the effects of trading costs and reinvestment of all income. Net of fee performance was calculated using actual management fees charged to each portfolio in the Composite. Gross returns include the effects of the reinvestment of all income, and are stated gross of all fees except for transaction fees, when charged.

Investing involves risk, principal loss is possible, and there can be no assurance that investment objectives will be achieved. Past performance is not indicative of future results. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Actual investment management fees will vary, beginning at 1.5% per annum. Our standard management fee schedule is described in more detail in KIG's Form ADV Part 2A. The measure of internal dispersion presented above is an asset-weighted standard deviation. The 3-year standard deviation presented above is calculated using monthly net-of-fees returns. The 3-year standard deviation is not presented when less than 36 months of returns are available.

For comparison purposes, the Composite's primary benchmark is the S&P 500 Index, a broad market sample based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The secondary benchmark is the Russell 3000 Index, which measures the performance of the largest 3,000 US companies and represents approximately 98% of the investable US equity market. Also presented is the Russell 3000 Value Index, which measures the performance of the value sector (lower price-to-book ratios and lower expected growth rates) of the Russell 3000 Index. It is not possible to invest directly in an index.

Nothing presented herein is, or is intended to constitute, specific investment advice or marketing material. Information provided reflects the views of KIG as of a particular time. Such views are subject to change at any point and KIG shall not be obligated to provide notice of any change. Any securities information regarding holdings, allocations and other characteristics are presented to illustrate examples of the types of investments or allocations that KIG or AFAM may have bought or pursued as of a particular date. It may not be representative of any current or future investments or allocations and nothing should be construed as a recommendation to follow any investment strategy or allocation. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While KIG has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in securities. Past performance is not a guarantee of future performance.