

the Prudent Speculator 599

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While trading was relatively quiet in August as market volatility continued to wane and the major averages ended near the unchanged mark, the S&P 500 did manage to hit all-time closing highs on three separate occasions. Interestingly, those records came with little fanfare, as investor optimism was subdued.

Indeed, the latest weekly Bull/Bear survey from the American Association of Individual Investors (AAII) found that only 28.6% of respondents said they were Bullish on the prospects for stocks over the next six months, versus the 38.5% historical average, while 31.5% said they were Bearish. Further, the most recent estimate from the Investment Company Institute (ICI) of long-term fund flows and ETF issuance over the previous five weeks showed some \$13 billion of net redemptions from domestic equity funds, compared to more than \$37 billion of inflows into bond funds. And Wall Street strategists were not immune from the lack of enthusiasm for stocks as the BofA Merrill Lynch Sell-Side Consensus Equity Sentiment Indicator dropped to 49.6 on Aug. 31, the lowest level since 2013.

We suppose that it is hard to blame folks for being less sanguine about stocks as every time they go online, open a newspaper or turn on the news, there is talk of lackluster global economic growth, the dangers of the Brexit aftermath, terrorism, gun violence and racial strife, not to mention the very polarizing presidential election campaign. Certainly, the proverbial wall of worry today has no shortage of bricks, but this really has always been the case and stocks historically have enjoyed average annualized returns in the 10% to 12% range, while the history books validate Warren Buffett's admonition, "Be greedy when others are fearful and fearful when others are greedy."

In actuality, the time truly to be scared is often when there appears to be little about which to be frightened. We need only think of U.S. Treasury Secretary Henry Paulson's July 2007 proclamation, "This is far and away the strongest global economy I've seen in my business lifetime," or the coronation of the New Economy with record-low unemployment in March 2000 as recent examples.

To be sure, there is little in the way of exuberance today as our phones are not exactly ringing off the hook with investors seeking to add to their equity exposure. In

fact, we have been busy dispelling a few myths. For example, many think that rising interest rates will kill the stock market, yet the historical data show that the previous 17 times the Federal Reserve initiated a tightening cycle, Value stocks gained an average of 13.7% over the next 12 months. Even better, the average annualized rate of return for Value was greater than 14% over the ensuing 24, 36 and 60 months, while Dividend Payers outperformed Non-

Dividend Payers by several percentage points per annum.

Others believe that we shouldn't "Fight the Fed" as the perception is that Janet Yellen & Co. will soon no longer be accommodative. But the Federal Funds rate is currently 0.25% to 0.50% and few expect any more than two 25-basis-point hikes for the foreseeable future. What's more, the Fed's long run target is now 3.0%, which is quite a bit below the historical Fed Funds rate average of 5.5%.

Certainly, interest rates are an important part of the investment equation, but the significantly stronger economic data necessary to compel the Fed to engage in a series of hikes likely would be a positive for corporate profits and dividend payouts. And stocks already compare very favorably to many fixed income instruments as the S&P 500 now yields 2.12%, versus 1.60% for the 10-Year U.S. Treasury. True, equities are volatile (but they can go up as well as down) and dividend rates have been higher in the past, but the average yield since the launch of *The Prudent Speculator* in 1977 for the S&P is 2.83%, compared to 6.48% for the 10-Year. As such, despite where the masses are seeming to place their bets today, there is little doubt in our view that stocks remain very compelling.

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

—John Templeton



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q2 Season

With the dollar strength and commodity price weakness headwinds taking a breather in recent months, earnings reporting season turned out to be nicely better than expected. True, muted global economic growth pro-

vided little assistance, but Corporate America managed to turn in solid Q2 EPS numbers relative to subdued expectations, even as sales figures did not compare as favorably. Data provider Bloomberg found that the number of com-

| Industry Group | Ticker | Company | 06.16 Act EPS | 06.15 Act EPS | 06.16 Est EPS | TTM ¹ EPS | NTM ² Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|-------------------------|--------------------------|-------------------------|------------------|------------------|------------------|-------------------------|-----------------------------|------------|--------------|------------------|-----------------|
| Autos & Components | GM | General Motors | 1.86 | 1.29 | 1.52 | 6.01 | 5.72 | 5.6 | 158,101 | 154,409 | -2.3% |
| | GT | Goodyear Tire & Rubber | 1.16 | 0.84 | 1.02 | 3.80 | 4.10 | 7.2 | 15,817 | 15,637 | -1.1% |
| | HMC | Honda Motor | 0.90 | 0.85 | 0.70 | 1.60 | 2.69 | 11.5 | 123,441 | 132,823 | 7.6% |
| Banks | BAC | Bank of America | 0.37 | 0.44 | 0.33 | 1.20 | 1.44 | 11.2 | nmf | nmf | nmf |
| | BBT | BB&T | 0.71 | 0.69 | 0.68 | 2.78 | 2.93 | 13.1 | nmf | nmf | nmf |
| | CM | Canadian Imperial Bank | 2.06 | 1.96 | 1.83 | 7.52 | 7.62 | 10.4 | nmf | nmf | nmf |
| | FITB | Fifth Third Bancorp | 0.41 | 0.43 | 0.38 | 1.58 | 1.61 | 12.5 | nmf | nmf | nmf |
| | HSBC | HSBC Holdings PLC | 0.92 | 1.17 | 0.73 | 3.54 | 2.75 | 13.5 | nmf | nmf | nmf |
| | JPM | JPMorgan Chase | 1.43 | 1.50 | 1.43 | 5.53 | 5.89 | 11.5 | nmf | nmf | nmf |
| | KEY | KeyCorp | 0.27 | 0.27 | 0.28 | 1.06 | 1.13 | 11.1 | nmf | nmf | nmf |
| | ONB | Old National Bancorp | 0.21 | 0.25 | 0.23 | 0.97 | 0.98 | 14.4 | nmf | nmf | nmf |
| | PNC | PNC Financial Services | 1.85 | 1.75 | 1.75 | 6.99 | 7.20 | 12.5 | nmf | nmf | nmf |
| Capital Goods | WFC | Wells Fargo | 1.01 | 1.03 | 1.01 | 4.08 | 4.02 | 12.6 | nmf | nmf | nmf |
| | ARII | American Railcar | 1.02 | 1.54 | 1.00 | 5.39 | 3.82 | 10.9 | 760 | 589 | -22.5% |
| | BA | Boeing | -0.44 | 1.62 | -0.94 | 5.42 | 9.72 | 13.3 | 96,809 | 92,188 | -4.8% |
| | CAT | Caterpillar | 1.09 | 1.27 | 0.96 | 3.25 | 3.54 | 23.2 | 41,795 | 39,983 | -4.3% |
| | CMI | Cummins | 2.40 | 2.62 | 2.16 | 8.37 | 8.07 | 15.6 | 18,205 | 17,138 | -5.9% |
| | DE | Deere | 1.55 | 1.53 | 0.94 | 4.99 | 3.69 | 22.9 | 26,840 | 22,955 | -14.5% |
| | ETN | Eaton PLC | 1.07 | 1.16 | 1.07 | 4.09 | 4.47 | 14.9 | 20,153 | 20,083 | -0.3% |
| | FLR | Fluor | 0.72 | 1.00 | 0.89 | 3.46 | 3.43 | 15.1 | 18,035 | 19,199 | 6.5% |
| | GE | General Electric | 0.51 | 0.28 | 0.46 | 1.53 | 1.49 | 20.9 | 122,448 | 123,633 | 1.0% |
| | TPC | Tutor Perini | 0.43 | 0.24 | 0.51 | 1.59 | 2.35 | 9.9 | 4,935 | 5,365 | 8.7% |
| Commercial Services | TRN | Trinity Industries | 0.62 | 1.33 | 0.48 | 3.88 | 1.87 | 13.1 | 5,462 | 4,493 | -17.7% |
| Commercial Services | MAN | ManpowerGroup | 1.60 | 1.33 | 1.52 | 5.85 | 6.15 | 11.6 | 19,536 | 19,628 | 0.5% |
| Consumer Dur & App | COH | Coach | 0.45 | 0.31 | 0.41 | 1.98 | 2.16 | 17.7 | 4,492 | 4,615 | 2.7% |
| | MDC | MDC Holdings | 0.55 | 0.41 | 0.50 | 1.52 | 2.38 | 11.0 | 2,042 | 2,515 | 23.1% |
| Consumer Services | WHR | Whirlpool | 3.50 | 2.70 | 3.36 | 13.68 | 15.96 | 11.2 | 20,651 | 21,331 | 3.3% |
| Consumer Services | RCL | Royal Caribbean Cruises | 1.09 | 0.84 | 1.02 | 5.44 | 6.33 | 11.2 | 8,448 | 8,660 | 2.5% |
| Diversified Financials | BK | Bank of New York Mellon | 0.76 | 0.77 | 0.75 | 2.92 | 3.13 | 13.3 | nmf | nmf | nmf |
| | COF | Capital One Financial | 1.76 | 1.77 | 1.87 | 7.38 | 7.69 | 9.3 | nmf | nmf | nmf |
| | CS | Credit Suisse Group | 0.12 | 0.59 | 0.21 | -0.32 | 1.10 | 11.9 | nmf | nmf | nmf |
| | GS | Goldman Sachs | 3.72 | 4.49 | 3.05 | 13.46 | 16.49 | 10.3 | nmf | nmf | nmf |
| Diversified Financials | SYF | Synchrony Financial | 0.58 | 0.65 | 0.55 | 2.62 | 2.83 | 9.8 | nmf | nmf | nmf |
| Energy | BHI | Baker Hughes | -0.90 | -0.14 | -0.62 | -1.60 | -1.16 | -42.4 | 12,258 | 10,055 | -18.0% |
| | BRS | Bristow Group | -0.34 | 0.56 | -0.15 | 0.50 | -1.56 | -7.3 | 1,618 | 1,503 | -7.1% |
| | ESV | EnSCO PLC | 0.51 | 1.18 | 0.50 | 3.07 | 0.32 | 23.4 | 3,564 | 2,079 | -41.7% |
| | HAL | Halliburton | -0.14 | 0.44 | -0.19 | 0.55 | 0.07 | 597.4 | 18,697 | 16,813 | -10.1% |
| | HFC | HollyFrontier | 0.28 | 1.45 | 0.33 | 1.80 | 1.46 | 17.7 | 11,263 | 11,103 | -1.4% |
| | NOV | National Oilwell Varco | -0.30 | 0.77 | -0.33 | 0.48 | -0.90 | -37.4 | 9,941 | 7,010 | -29.5% |
| | RDS/A | Royal Dutch Shell PLC | 0.26 | 1.22 | 0.53 | 1.84 | 2.90 | 16.9 | 233,821 | 228,610 | -2.2% |
| | TK | Teekay | 0.01 | 0.27 | -0.06 | 0.38 | 0.82 | 8.8 | 2,540 | 2,357 | -7.2% |
| | TOT | Total SA | 0.90 | 1.34 | 0.75 | 3.63 | 3.83 | 12.5 | 126,422 | 126,400 | 0.0% |
| | Food & Staples Retailing | CVS | CVS Health | 1.32 | 1.22 | 1.30 | 5.32 | 6.26 | 14.9 | 166,729 | 187,491 |
| WMT | | Wal-Mart Stores | 1.07 | 1.08 | 1.02 | 4.53 | 4.33 | 16.5 | 483,833 | 492,066 | 1.7% |
| Food Beverage & Tobacco | ADM | Archer-Daniels-Midland | 0.41 | 0.60 | 0.45 | 2.04 | 2.83 | 15.5 | 63,023 | 64,900 | 3.0% |
| | TSN | Tyson Foods | 1.21 | 0.80 | 1.06 | 4.26 | 4.73 | 16.0 | 38,231 | 37,206 | -2.7% |
| Health Care Equip/Srvcs | ABT | Abbott Laboratories | 0.55 | 0.52 | 0.53 | 2.12 | 2.34 | 18.0 | 20,556 | 22,072 | 7.4% |
| | AET | Aetna | 2.21 | 2.05 | 2.12 | 7.78 | 8.38 | 14.0 | 61,647 | 64,546 | 4.7% |
| | CAH | Cardinal Health | 1.14 | 1.00 | 1.13 | 5.25 | 5.61 | 14.2 | 121,546 | 131,034 | 7.8% |
| | MCK | McKesson | 3.52 | 3.14 | 3.36 | 13.18 | 13.58 | 13.6 | 193,071 | 204,762 | 6.1% |
| | MDT | Medtronic PLC | 1.03 | 1.02 | 1.01 | 4.39 | 4.77 | 18.2 | 28,725 | 30,488 | 6.1% |

As of 08.31.16. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

panies in the S&P 500 that exceeded earnings expectations was 71.8%, compared to 17.7% that trailed forecasts and 10.5% that met projections. In Q2 2015, the Beat/Miss/Match figures were 68.3%/21.8%/9.9%. Of the 102 *Prudent Speculator* stocks below, 70% topped EPS estimates.

Of course, management teams remained cautious in their outlooks and guidance, but Standard & Poor's pres-

ently projects that after declining 11.1% in 2015 to \$100.45, compared to \$113.01 in 2014, bottom-up operating EPS for the S&P 500 will rebound nicely this year to \$110.76. The current arguably very aggressive S&P EPS estimate of \$132.91 for 2017 has been coming down all year, but profits should improve going forward and history shows that stock prices eventually follow earnings. ■

| Industry Group | Ticker | Company | 06.16 Act EPS | 06.15 Act EPS | 06.16 Est EPS | TTM ¹ EPS | NTM ² Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|----------------------------|-----------------------|------------------------------|------------------|------------------|------------------|-------------------------|-----------------------------|------------|--------------|------------------|-----------------|
| Household Products | KMB | Kimberly-Clark | 1.53 | 1.41 | 1.47 | 5.99 | 6.22 | 20.6 | 18,321 | 18,738 | 2.3% |
| Insurance | ALL | Allstate | 0.62 | 0.63 | 0.58 | 4.58 | 5.74 | 12.0 | nmf | nmf | nmf |
| | AXS | Axis Capital Holdings | 0.51 | 0.93 | 0.31 | 3.32 | 4.42 | 12.9 | nmf | nmf | nmf |
| | AZSEY | Allianz SE | 0.37 | 0.46 | 0.40 | 1.57 | 1.66 | 8.9 | nmf | nmf | nmf |
| | MET | MetLife | 0.83 | 1.56 | 1.35 | 3.87 | 5.42 | 8.0 | nmf | nmf | nmf |
| | PRU | Prudential Financial | 1.84 | 2.91 | 2.50 | 8.36 | 10.01 | 7.9 | nmf | nmf | nmf |
| | TRV | Travelers | 2.20 | 2.52 | 2.04 | 10.36 | 9.79 | 12.1 | nmf | nmf | nmf |
| Materials | ABX | Barrick Gold | 0.14 | 0.05 | 0.14 | 0.44 | 0.89 | 19.1 | 8,495 | 8,597 | 1.2% |
| | AGU | Agrium | 4.18 | 4.71 | 4.12 | 6.54 | 5.36 | 18.0 | 14,071 | 14,332 | 1.9% |
| | CE | Celanese | 1.59 | 1.58 | 1.56 | 6.17 | 6.74 | 9.6 | 5,502 | 5,534 | 0.6% |
| | MOS | Mosaic | 0.07 | 1.05 | 0.12 | 1.36 | 0.87 | 34.6 | 7,617 | 7,210 | -5.4% |
| | NEM | Newmont Mining | 0.44 | 0.26 | 0.29 | 1.06 | 1.94 | 19.7 | 7,919 | 8,126 | 2.6% |
| | RYAM | Rayonier Advanced Materials | 0.46 | 0.39 | 0.26 | 1.92 | 0.76 | 16.2 | 931 | 834 | -10.4% |
| Media | CMCSA | Comcast | 0.83 | 0.84 | 0.81 | 3.28 | 3.49 | 18.7 | 75,973 | 81,979 | 7.9% |
| | DIS | Walt Disney | 1.62 | 1.45 | 1.61 | 5.81 | 5.89 | 16.0 | 56,002 | 58,009 | 3.6% |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 2.52 | 2.57 | 2.74 | 9.83 | 11.48 | 14.8 | 22,474 | 23,161 | 3.1% |
| | BIIB | Biogen | 4.87 | 3.93 | 4.69 | 17.87 | 20.61 | 14.8 | 11,238 | 11,897 | 5.9% |
| | GILD | Gilead Sciences | 2.89 | 2.92 | 3.02 | 11.66 | 11.43 | 6.9 | 32,371 | 29,717 | -8.2% |
| | JNJ | Johnson & Johnson | 1.74 | 1.71 | 1.68 | 6.35 | 6.83 | 17.5 | 70,877 | 73,792 | 4.1% |
| | MRK | Merck | 0.93 | 0.86 | 0.91 | 3.71 | 3.78 | 16.6 | 39,444 | 39,545 | 0.3% |
| | PFE | Pfizer | 0.64 | 0.56 | 0.62 | 2.44 | 2.50 | 13.9 | 52,286 | 53,599 | 2.5% |
| Retailing | SHPG | Shire PLC | 3.36 | 2.63 | 3.09 | 12.78 | 13.46 | 13.9 | 7,509 | 14,608 | 94.5% |
| | AEO | American Eagle Outfitters | 0.23 | 0.17 | 0.21 | 1.22 | 1.33 | 13.9 | 3,597 | 3,698 | 2.8% |
| | DSW | DSW | 0.35 | 0.42 | 0.30 | 1.33 | 1.48 | 16.2 | 2,678 | 2,833 | 5.8% |
| | FL | Foot Locker | 0.94 | 0.84 | 0.90 | 4.49 | 4.96 | 13.2 | 7,568 | 7,959 | 5.2% |
| | KSS | Kohl's | 1.22 | 1.07 | 1.03 | 3.86 | 3.95 | 11.2 | 18,968 | 18,935 | -0.2% |
| | PETS | PetMed Express | 0.32 | 0.29 | 0.31 | 1.05 | 1.12 | 18.0 | 236 | 242 | 2.6% |
| | SPLS | Staples | 0.12 | 0.12 | 0.12 | 0.90 | 0.88 | 9.7 | 20,714 | 20,168 | -2.6% |
| | SSI | Stage Stores | 0.03 | 0.22 | 0.05 | 0.09 | 0.40 | 13.3 | 1,525 | 1,457 | -4.5% |
| | TGT | Target | 1.23 | 1.22 | 1.13 | 4.90 | 5.15 | 13.6 | 71,604 | 70,279 | -1.9% |
| | Semis & Cap Equipment | INTC | Intel | 0.59 | 0.58 | 0.54 | 2.48 | 2.62 | 13.7 | 56,614 | 59,196 |
| Software & Services | MRVL | Marvell Technology | -0.04 | 0.08 | 0.07 | 0.17 | 0.50 | 24.9 | 2,542 | 2,469 | -2.9% |
| | QCOM | Qualcomm | 1.08 | 0.83 | 0.97 | 3.50 | 4.65 | 13.6 | 22,826 | 23,659 | 3.6% |
| | CA | CA | 0.64 | 0.64 | 0.61 | 2.43 | 2.52 | 13.4 | 4,047 | 4,057 | 0.3% |
| Technology Hardware | IBM | Int'l Business Machines | 2.95 | 3.84 | 2.89 | 13.48 | 13.97 | 11.4 | 80,261 | 79,498 | -1.0% |
| | MSFT | Microsoft | 0.69 | 0.62 | 0.58 | 2.76 | 2.88 | 19.9 | 85,320 | 93,600 | 9.7% |
| | AAPL | Apple | 1.42 | 1.85 | 1.39 | 8.56 | 8.65 | 12.3 | 220,288 | 221,897 | 0.7% |
| | BHE | Benchmark Electronics | 0.31 | 0.42 | 0.32 | 1.43 | 1.51 | 16.0 | 2,384 | 2,371 | -0.6% |
| | BRCD | Brocade Comm Systems | 0.21 | 0.22 | 0.16 | 0.98 | 0.95 | 9.5 | 2,277 | 2,540 | 11.6% |
| | CSCO | Cisco Systems | 0.63 | 0.51 | 0.60 | 2.36 | 2.43 | 13.0 | 49,247 | 49,823 | 1.2% |
| | ERIC | LM Ericsson | 0.10 | 0.15 | 0.13 | 0.66 | 0.52 | 13.8 | 28,426 | 27,214 | -4.3% |
| | GLW | Corning | 0.37 | 0.38 | 0.32 | 1.33 | 1.55 | 14.7 | 8,910 | 9,874 | 10.8% |
| | IM | Ingram Micro | 0.61 | 0.55 | 0.49 | 2.64 | 2.68 | 13.0 | 41,287 | 42,607 | 3.2% |
| | STX | Seagate Technology PLC | 0.69 | 0.77 | 0.58 | 2.27 | 2.97 | 11.4 | 11,160 | 10,519 | -5.7% |
| Telecommunication Services | NTT | Nippon Telegraph & Telephone | 1.08 | 0.75 | 1.08 | 3.24 | 3.97 | 11.1 | 99,241 | 113,331 | 14.2% |
| | T | AT&T | 0.72 | 0.69 | 0.72 | 2.81 | 2.91 | 14.1 | 162,265 | 166,453 | 2.6% |
| Transportation | ALK | Alaska Air Group | 2.12 | 1.76 | 2.10 | 7.19 | 6.65 | 10.2 | 5,733 | 6,206 | 8.2% |
| | CSX | CSX | 0.47 | 0.56 | 0.44 | 1.84 | 1.82 | 15.5 | 11,042 | 10,939 | -0.9% |
| | DAL | Delta Air Lines | 1.47 | 1.27 | 1.42 | 5.71 | 5.76 | 6.4 | 40,307 | 39,866 | -1.1% |
| | NSC | Norfolk Southern | 1.36 | 1.41 | 1.35 | 5.52 | 5.62 | 16.7 | 10,105 | 10,044 | -0.6% |
| Utilities | ETR | Entergy | 3.11 | 0.83 | 1.05 | 7.94 | 5.02 | 15.6 | 10,952 | 12,023 | 9.8% |

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Recommended Stocks

In this space, we list each month 40 of our most attractively priced recommended stocks. All 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 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.

| 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 | | | | | |
| Autos & Components | GM | General Motors | 31.92 | 43.30 | 5.3 | 0.3 | 1.3 | 2.5 | 5.9 | 145% | 4.8% | 49,857 |
| | GT | Goodyear Tire & Rubber | 29.35 | 48.84 | 7.7 | 0.5 | 2.2 | 5.8 | 3.6 | 165% | 1.0% | 7,703 |
| Banks | BBT | BB&T | 38.50 | 48.72 | 13.8 | nmf | 2.0 | nmf | nmf | nmf | 3.1% | 31,358 |
| | PNC | PNC Financial Services | 90.10 | 113.28 | 12.9 | nmf | 1.4 | nmf | nmf | nmf | 2.4% | 44,276 |
| Capital Goods | BA | Boeing | 129.45 | 151.70 | 23.9 | 0.8 | nmf | 11.9 | 9.2 | nmf | 3.4% | 80,754 |
| Commercial Services | MAN | ManpowerGroup | 71.46 | 98.81 | 12.2 | 0.3 | 5.7 | 6.6 | 12.7 | 97% | 2.4% | 4,897 |
| Consumer Dur & App | COH | Coach | 38.18 | 48.73 | 19.3 | 2.4 | 5.8 | 11.8 | 3.4 | 47% | 3.5% | 10,650 |
| | MDC | MDC Holdings | 26.11 | 42.84 | 17.2 | 0.6 | 1.0 | 15.6 | -5.5 | 67% | 3.8% | 1,280 |
| Consumer Services | CCL | Carnival | 47.80 | 68.31 | 15.3 | 2.2 | 1.9 | 9.6 | 5.6 | 44% | 2.9% | 35,477 |
| Diversified Financials | ANH | Anworth Mortgage Asset | 4.89 | 6.80 | 8.5 | nmf | 0.8 | nmf | nmf | nmf | 12.3% | 469 |
| | COF | Capital One Financial | 71.60 | 95.20 | 9.7 | nmf | 1.2 | nmf | nmf | nmf | 2.2% | 36,666 |
| | SYF | Synchrony Financial | 27.83 | 38.18 | 10.6 | nmf | 1.9 | nmf | nmf | nmf | 1.9% | 23,208 |
| Energy | HFC | HollyFrontier | 25.88 | 45.04 | 14.4 | 0.4 | 2.0 | 22.0 | 1.4 | 74% | 5.1% | 4,568 |
| | NOV | National Oilwell Varco | 33.54 | 42.16 | 69.9 | 1.3 | 2.3 | -12.6 | 11.0 | 60% | 0.6% | 12,666 |
| | TNP | Tsakos Energy Navigation | 4.94 | 11.41 | 3.3 | 0.8 | 0.4 | 5.9 | 4.1 | 89% | 6.5% | 431 |
| | TOT | Total SA | 47.75 | 71.72 | 13.1 | 0.9 | 1.3 | 11.9 | -3.4 | 45% | 4.9% | 119,536 |
| Food & Staples Retailing | CVS | CVS Health | 93.40 | 151.38 | 17.6 | 0.6 | nmf | 10.6 | 6.7 | nmf | 1.8% | 99,584 |
| | WMT | Wal-Mart Stores | 71.44 | 81.00 | 15.8 | 0.5 | 3.7 | 7.9 | 9.4 | 71% | 2.8% | 220,982 |
| Health Care Equip/Srvcs | ABT | Abbott Laboratories | 42.02 | 53.76 | 19.8 | 3.0 | 11.0 | 15.4 | 2.7 | 107% | 2.5% | 61,769 |
| | AET | Aetna | 117.12 | 144.38 | 15.1 | 0.7 | 7.5 | 7.6 | 9.9 | 363% | 0.9% | 41,086 |
| | CAH | Cardinal Health | 79.67 | 110.71 | 15.2 | 0.2 | nmf | 9.3 | 9.6 | nmf | 2.3% | 25,382 |
| Insurance | MET | MetLife | 43.40 | 72.93 | 11.2 | nmf | 0.7 | nmf | nmf | nmf | 3.7% | 47,691 |
| | PRU | Prudential Financial | 79.38 | 102.23 | 9.5 | nmf | 0.7 | nmf | nmf | nmf | 3.5% | 34,689 |
| Materials | CE | Celanese | 64.43 | 96.80 | 10.4 | 1.7 | 5.3 | 15.5 | 6.6 | 139% | 2.2% | 9,325 |
| Media | CMCSA | Comcast | 65.26 | 80.01 | 19.9 | 2.1 | nmf | 8.4 | 6.4 | nmf | 1.7% | 157,396 |
| | DIS | Walt Disney | 94.46 | 134.24 | 16.3 | 2.7 | 16.2 | 10.1 | 5.0 | 161% | 1.5% | 151,807 |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 170.06 | 217.40 | 17.3 | 5.7 | 29.8 | 11.1 | 6.9 | 655% | 2.4% | 127,266 |
| | GILD | Gilead Sciences | 78.38 | 130.29 | 6.7 | 3.2 | 22.2 | 4.7 | 15.5 | 461% | 2.4% | 103,435 |
| | PFE | Pfizer | 34.80 | 43.05 | 14.3 | 4.0 | nmf | 13.0 | 6.3 | nmf | 3.4% | 211,085 |
| | SNY | Sanofi | 38.47 | 57.67 | 12.4 | 5.1 | 24.2 | 13.9 | 4.7 | 404% | 3.6% | 99,176 |
| Retailing | KSS | Kohl's | 44.38 | 65.77 | 11.5 | 0.4 | 1.6 | 5.5 | 16.1 | 86% | 4.5% | 8,153 |
| | TGT | Target | 70.19 | 85.76 | 14.3 | 0.6 | 3.6 | 6.6 | 7.4 | 107% | 3.4% | 40,350 |
| Software & Services | IBM | Int'l Business Machines | 158.88 | 192.06 | 11.8 | 1.9 | nmf | 10.8 | 9.7 | nmf | 3.5% | 151,865 |
| | ORCL | Oracle | 41.22 | 53.94 | 18.6 | 4.6 | 21.9 | 10.5 | 7.1 | 517% | 1.5% | 169,939 |
| Technology Hardware | AAPL | Apple | 106.10 | 132.05 | 12.4 | 2.6 | 4.9 | 5.7 | 8.6 | 59% | 2.1% | 571,714 |
| | BRC | Brocade Comm Systems | 8.98 | 14.89 | 9.2 | 1.8 | nmf | 10.4 | 9.7 | nmf | 2.4% | 4,196 |
| | CSCO | Cisco Systems | 31.44 | 37.14 | 13.3 | 3.2 | 4.6 | 8.2 | 7.8 | 71% | 3.3% | 158,134 |
| Telecom Services | T | AT&T | 40.88 | 46.00 | 14.5 | 1.5 | nmf | 7.0 | 7.1 | nmf | 4.7% | 251,494 |
| Transportation | DAL | Delta Air Lines | 36.75 | 64.12 | 6.4 | 0.7 | nmf | 3.3 | 15.6 | nmf | 2.2% | 27,522 |
| | NSC | Norfolk Southern | 93.90 | 106.25 | 17.0 | 2.7 | 2.2 | 9.1 | 1.5 | 78% | 2.5% | 27,564 |

As of 08.31.16. N/A=Not applicable. nmf=Not meaningful. ¹ =First-time recommendation. ²Tangible book value. ³Enterprise value-to-earnings before interest taxes depreciation and amortization. ⁴Free cash flow yield. ⁵Tangible equity. SOURCE: Al Frank using data from Bloomberg

Portfolio Builder

Research Team Favorites

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 undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. The prices at which we'll buy and sell stocks incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal 3-to-5-year investing time horizon.

Each month in this column, we suggest to readers a group of ten stocks with which to populate portfolios. The list could serve as a portfolio foundation for new investors or as a pick-list for folks already maintaining well-diversified holdings. While other themes may be featured over time, our ongoing consolidation program has created opportunities (i.e. proceeds of sales) to simply add stocks each month to our newsletter portfolios.

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.

This Month's Theme

While our newsletter portfolios now have minimal cash, given that we have strived to add most of our monthly Portfolio Builder selections to one of the accounts, this go round we feature 10 favorites that have not been discussed in this space in some time. Of course, we already own these companies in one or more of the portfolios and readers should note that the performance of *The Prudent Speculator* is based on the returns of TPS, Buckingham, Millennium and PruFolio, so any of our 100+ holdings should be viewed as a buy until such time as we say sell.

NEWSLETTER PORTFOLIO PURCHASES

| Ticker | Company | Sector | Price | Target Price |
|--------|------------------------|------------------------|--------|--------------|
| AET | Aetna | Health Care | 117.12 | 144.38 |
| BRCD | Brocade Comm Systems | Information Technology | 8.98 | 14.89 |
| CMCSA | Comcast | Consumer Discretionary | 65.26 | 80.01 |
| COH | Coach | Consumer Discretionary | 38.18 | 48.73 |
| NOV | National Oilwell Varco | Energy | 33.54 | 42.16 |
| NSC | Norfolk Southern | Industrials | 93.90 | 106.25 |
| PNC | PNC Financial Services | Financials | 90.10 | 113.28 |
| SYF | Synchrony Financial | Financials | 27.83 | 38.18 |
| T | AT&T | Telecom Services | 40.88 | 46.00 |
| WMT | Wal-Mart Stores | Consumer Staples | 71.44 | 81.00 |

As of 08.31.16. SOURCE: AI Frank using data from Bloomberg

Aetna (AET)

Aetna is one of the largest managed care organizations, serving an estimated 46.3 million people. The firm's Q2 results were again strong with revenue of \$15.9 billion, versus forecasts of \$15.8 billion, and adjusted EPS of \$2.21, versus expectations of \$2.12. The insurer's full-year operating EPS guidance is now between \$7.90 and \$8.10. While performance continues to be solid, the pending acquisition of rival Humana has been under fire, with the government suing to block the merger. AET CEO Mark Bertolini recently commented on the situation, "We continue to work diligently with the Department of Justice and state regulators toward final approval of our proposed acquisition of Humana, and we continue to advance our integration readiness plans. We have obtained seven of the necessary state approvals, and we believe we remain on track to close the transaction in the second half of 2016." We continue to like Aetna's diverse product lines, relative pricing discipline, cost control initiatives and solid cash flow generation, and believe the integration of Humana (should the deal go through) would be positive. Stand-alone AET trades for 14 times estimated earnings.

Brocade Communications Systems (BRCD)

Brocade is a designer and manufacturer of switches and networking equipment for use in storage area networks (SAN). Fiscal Q3 2016 results were excellent, including adjusted earnings per share of \$0.21 (\$0.16 est.) and sales of \$590 million (\$574 million est.). For Q4 2016,

Brocade expects adjusted EPS of \$0.21 to \$0.23, compared to forecasts of \$0.22, while revenue for the period is expected to rise to the \$630 million to \$650 million range, a would-be company record. The market did not like the guidance, but we think that the slowness in IT spending will abate and that the long-term prospects for the company are solid. We believe that the deal with Ruckus Wireless (announced in April, closed in Q2) should give Brocade an additional edge when it comes to wireless infrastructure. The firm claims that it will generate more than \$140 million to \$160 million of free cash flow next quarter, which can continue to be put back into new product generation, share buybacks and dividends. Brocade trades for just under 10 times estimated earnings and yields 2.4%.

Comcast (CMCSA)

Comcast is a global media and technology company with two primary businesses, Comcast Cable and NBCUniversal. The former is one of the nation's largest video, high-speed Internet and phone providers to residential customers under the XFINITY brand and also provides these services to businesses. The latter operates news, entertainment and sports cable networks, the NBC and Telemundo broadcast networks, television production operations, television station groups, Universal Pictures and Universal Parks and Resorts. Q2 saw CMCSA earn \$0.83 per share (\$0.81 est.) and announce the \$3.8 billion acquisition of DreamWorks Animation. Steve Burke, CEO of NBCUniversal, said, "Jeffrey Katzenberg and the DreamWorks organization have created a dynamic film brand and a deep library of intellectual property. DreamWorks will help us grow our film, television, theme parks and consumer products businesses for years to come." Regulatory hurdles still must be overcome, but we are constructive on DreamWorks, while we like that CMCSA is expanding its already-diversified income stream and augmenting its ample opportunities for organic growth.

Coach (COH)

Coach, which is best known for accessories (especially handbags), 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 economies. The second quarter saw adjusted EPS beat investor expectations, as the firm managed to achieve positive year-over-year growth in its North American sales for the first time

in three years. Coach also saw double-digit percentage growth in Mainland China and Europe, and single-digit growth in Southeast Asia. The company reported improving brand perception around the world and expects to keep the momentum by pushing its premium Coach 1941 products throughout 2017. Management expects revenue growth in the low-to-mid single digits and double-digit earnings per share growth for fiscal 2017. We continue to like the solid balance sheet, the strong global brand with loyal customers, the progress in North America and the momentum in international markets. COH yields 3.5%.

National Oilwell Varco (NOV)

National Oilwell is a global leader in the design, manufacture and sale of equipment and components used in oil and gas drilling and production operations. As with the rest of the oil patch, NOV has been under pressure, but we like that the company dominates the drilling equipment space, making nearly every component that goes into a drilling rig as well as the supplies and tools used in the drilling process. In nearly every product line in which it competes, NOV is either first or a close second in terms of market share. Although drilling contractors have been delaying the acceptance of new builds over the last few quarters, forcing NOV to close over 250 facilities, management believes that there are signs of "isolated green shoots" in the otherwise barren landscape. Though operating pressures will persist, we are comforted by a solid balance sheet, market leadership positions and a \$947 million backlog. We still believe in long-term energy demand growth with the global population expected to expand from 7 billion to 9 billion and worldwide economic output more than doubling by 2040, and we think that NOV will survive the current energy sector depression and thrive during the next leg up in the highly cyclical industry.

Norfolk Southern (NSC)

Norfolk is a leading North American transportation provider, operating some 20,000 rail route miles in 22 states and the District of Columbia, serving every major container port in the Eastern U.S., and providing efficient connections to other rail carriers. The firm operates the most extensive intermodal network in the East and is a major transporter of coal, automotive and industrial products. NSC had earnings per share of \$1.36 in Q2, a penny ahead of the consensus estimate on total revenue of \$2.5 billion, even as overall volume declined 10% year-over-year. While significant improvements in network perfor-

mance and aggressive spending reductions helped, operating expenses also dropped by 11% and management expects \$200 million of productivity savings by the end of the year and targets \$650 million by 2020. After fending off advances from Canadian Pacific Railway earlier this year, we are pleased that stand-alone NSC continues to chug along. True, Norfolk may continue to see reduced volumes of coal shipments in the near term, but we expect other areas of the business to improve in both shipment volume and pricing over the long term. Shares yield 2.5%.

PNC Financial Services (PNC)

PNC is a Pennsylvania-based financial services organization with \$396 billion in assets. Created in 1983 via the merger of Pittsburgh National and Provident National, PNC has grown to become the 5th largest bank in the U.S. ranked by branches and 7th largest bank ranked by deposits. Second-quarter results beat expectations, with adjusted earnings per share coming in at \$1.85 (vs. \$1.75 estimate). We are attracted to PNC as it is one of the more conservative players in the space, with a relatively strong balance sheet and tight expense controls. We think the firm's focus on organic loan growth is a very important value-added performance driver and we are optimistic about management's strategic plans to increase revenue. We are pleased that the Q2 bottom line was the best in three years, and we note that PNC trades for just 12.5 times forward earnings estimates and yields 2.4%.

Synchrony Financial (SYF)

Synchrony, formerly GE Capital's retail finance business, provides a range of credit products through programs established with numerous regional and national retailers, local merchants, manufacturers, industry associations and healthcare providers. The company's success largely has been driven by its private-label credit business, which accounts for almost 70% of revenue and receivables. Synchrony performs the underwriting for the partners and retains the receivables while paying out rewards to retailers. This business has resulted in higher credit yields, interchange fees through its dual-use cards, and durable partner relationships, which has allowed SYF to generate high returns on equity. Shares are still off more than 8% this year as investors remain concerned about a modest uptick in its forecast for potential credit losses, but it is important to note that net-charge-off levels are near all-time lows. We like that SYF continues to forecast better-than-expected loan growth and that the

Board recently authorized a \$952 million share buyback program along with the initiation of a quarterly dividend (the yield is 1.9%). The forward P/E ratio is less than 10.

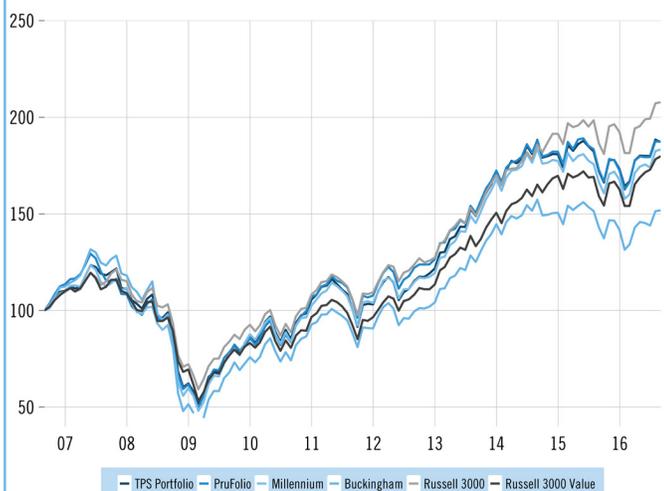
AT&T (T)

Telecom behemoth AT&T provides telephone, television, Internet and wireless service across the country. The company maintains a high-speed LTE network for mobile devices that covers 335 million people and a broadband service with 60 million customer locations with plans to roll out fiber service to 14 million business locations over the next four years. With its acquisition of DirecTV complete, AT&T has added more than 1 million satellite subscribers and management reports that the cost synergies are ahead of plan. Now halfway through the year, T expects double-digit revenue growth and adjusted earnings per share growth in the mid-single-digit range or better for 2016 (currently +7% year to date). Broadband subscriptions continue to climb and in the U.S. Mobile segment, T has reported a record EBITDA margin of 41.4% thanks to the shift towards customers paying the full price of phone upgrades, versus subsidies. In addition to its strategic spending for parts of the wireless spectrum and content, we like that T continues to distribute cash to holders, with the yield on the low-beta stock at 4.7%.

Wal-Mart Stores (WMT)

Retailing titan Wal-Mart conducts domestic operations under numerous store formats, and has a growing international footprint. While WMT, like other brick-and-mortar franchises, has felt the heat from the likes of Amazon, we were pleased to see that the firm reported its 8th consecutive quarter of positive domestic same-store comparative sales as traffic continued to increase after a long period of declines. The company also has been enjoying solid revenue generation within its international business and, on a constant currency basis, its e-commerce sales have been growing by double digits, with the recently announced acquisition of Jet.com another enhancement of its omnichannel presence. We think the investments in staff, client experience and e-commerce Wal-Mart has been making will make a long-term difference in performance, and we continue to like the prospects for growth outside the U.S. as well as the differing store concepts here at home to capture additional grocery and urban market business. The company has made gains in free cash flow generation and it regularly returns capital to holders via buybacks and dividends (the yield is 2.8%).

NEWSLETTER PORTFOLIO PERFORMANCE



| | Aug | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|------------------------------|----------------|-----------------|--------------|----------------------|--------|---------|
| Newsletter Portfolios | | | | | | |
| Buckingham | 0.30 | 7.12 | 6.19 | 6.66 | 11.45 | 4.26 |
| Millennium | 0.47 | 9.33 | 10.11 | 8.08 | 12.81 | 6.25 |
| PruFolio | -0.11 | 8.60 | 8.43 | 7.57 | 12.20 | 6.48 |
| TPS | -0.65 | 8.07 | 8.83 | 7.94 | 13.24 | 6.47 |
| Major Indexes | | | | | | |
| Russell 3000 | 0.26 | 8.01 | 11.43 | 11.73 | 14.46 | 7.59 |
| Russell 3000 Value | 0.90 | 10.55 | 12.96 | 10.50 | 14.24 | 6.04 |
| S&P 500 | 0.14 | 7.82 | 12.54 | 12.29 | 14.68 | 7.51 |
| Dow Jones Industrial Avg | 0.26 | 7.65 | 14.37 | 10.20 | 12.48 | 7.72 |
| | Inception Date | Since Inception | Index Return | Index | | |
| Buckingham | 01.21.03 | 11.20 | 9.37 | Russell 3000 | | |
| Millennium | 12.31.99 | 9.02 | 4.84 | Russell 3000 | | |
| PruFolio | 12.29.00 | 12.76 | 5.67 | Russell 3000 | | |
| TPS | 03.10.77 | 17.74 | 10.84 | S&P 500 ¹ | | |

Since *The Prudent Speculator's* launch in March 1977, its 1,860 stock recommendations have returned, on average, an annualized 17.07%, not including dividends.

As of 08.31.16. All data are total returns, except for that of all recommended stocks, which excludes dividends. Data for periods greater than one year are annualized. The Dow Jones Industrial Average (DJIA or Dow) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The Russell 3000 Index measure the performance of the largest 3,000 U.S. companies. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. ¹The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. SOURCE: Al Frank using data from Bloomberg

TPS Portfolio is Al Frank's actual investment portfolio. Though not presently leveraged, it has been so in the past. Buckingham Portfolio is John Buckingham's actual investment portfolio. Though not presently leveraged, it has been so in the past. Millennium Portfolio is unleveraged and hypothetical. PruFolio is unleveraged and hypothetical.

All portfolio returns are calculated on a total return basis and reflect the reinvestment of dividends, if any, margin leverage and margin interest charges, trading costs and subscription costs. There are inherent limitations with in hypothetical or model portfolio results as the securities are not actually purchased or sold. They may not reflect the impact, if any, of material market conditions which could have an impact on AFAM's decision making if the hypothetical portfolios were real. Hypothetical performance is shown for illustrative purposes only and should not be interpreted as an indication of performance of any AFAM portfolio. The use of leverage magnifies gains and losses and increases risk to a portfolio.

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