

the Prudent Speculator ⁶⁰³

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“MGM’s sportsbooks had taken twice as many bets and twice as much money on Washington plus the points, including sharp bets on the Huskies at +15.5, +15 and +14.5. Anything over 14, the sharps took it.” So proclaimed ESPN.com, highlighting the *smart money* wagers made in the run-up to the 17-point victory by Alabama in the College Football Playoff Semifinal on New Year’s Eve. Not surprisingly, as the supposed experts were wrong about much of what transpired in 2016, the year ended with the casinos pocketing all of those *sharp* bets made on Washington when the Crimson Tide covered the spread.

While we agree with philosopher Elbert Hubbard’s observation, “The only man who makes money following the races is one who does it with a broom and shovel,” the odds, unlike in the gambling world, clearly support equity market investors. After all, stocks have returned 10% to 12% per annum dating back to 1927. The trick is to stay the course through thick and thin, ignoring repeated siren calls that a correction is imminent or that it is better to head to the sidelines to await greater clarity.

No doubt, there was no shortage of concerns in 2016 (as has been the case every year), starting almost from day one as the worst first week in history (the Dow Jones Industrial Average skidded 6.2%, or more than 1,000 points) supposedly portended an ugly year for equities. Worries were hardly alleviated over the ensuing five weeks, with the percentage losses hitting double-digits in February on fears that a Chinese economic slowdown would kill global growth, while here at home, many were spooked by sub-par GDP growth, uncertainty in regard to Federal Reserve monetary policy and question marks about the health of corporate profits. And that was all before the shocking Brexit vote and the unexpected Trump victory, both of which were widely thought to be *black-swan* events that would lead to massive stock market losses.

Through it all, the most important equity gauge, the S&P 500, managed a total return in 2016 of 11.95%, while our benchmark index, the Russell 3000, advanced 12.72%. Our portfolios enjoyed market-beating performance,

clearly aided by the resurgence of Value investing, keeping in mind that the historical probabilities suggest that stocks trading for inexpensive fundamental valuations

have outperformed their Growth rivals by a wide margin (13.2% per annum vs. 9.2% per annum from 1927-2015, per portfolio calculations made by Professors Eugene F. Fama and Kenneth R. French).

As the calendar turns to 2017, we retain our optimism for the long-term prospects of our broadly diversified portfolio of undervalued stocks, even as we respect that selloffs, downturns, corrections and even Bear Markets are always part of the equity

market dynamic. We think that valuations for our holdings are reasonable, especially given the historically low interest rate environment—it is important to recognize that the average Federal Funds rate since 1971 has been 5.38%, compared to the present range of 0.50% to 0.75%, while the dividend yield on the S&P 500 (currently 2.07%) has seldom ever compared so favorably to the yield on the 10-Year U.S. Treasury (currently 2.46%).

Further, the U.S. economy seems to be on the mend, with multi-year highs in terms of consumer sentiment and generational lows in regard to jobless claims, hardly a negative backdrop for corporate profit growth (Standard & Poor’s presently projects that EPS for the S&P 500 will rise to more than \$130 in 2017, up from \$108.86 last year). We also are not yet seeing signs of excessive investor exuberance, with plenty of media attention afforded the doom-and-gloom crowd, Wall Street strategists the least upbeat they have been since 2003 (a year in which our newsletter portfolios enjoyed a 91.4% average return) and dollars still flowing into fixed income funds and ETFs.

And, we never forget, as Warren Buffett states, “Investors are in a game that is heavily stacked in their favor.”



Chief Investment Officer

Al Frank Asset Management (AFAM)

“The house doesn’t
beat the player.
It just gives him
the opportunity to
beat himself.”
— Nick the Greek

Graphic Detail

Sector and Industry Group Weightings

Time again to compare the current Sector and Industry Group weightings of our four newsletter portfolios to those of the broad-based Russell 3000 index, with the Russell 3000 Value index included as an additional reference point. While we very much remain bottom-up stock pickers focused on the merits of individual companies, we also keep a watchful eye on the composition of the Russell 3000 in order to ensure that we are comfortable in the overweighting or underweighting of a particular Sector or Industry Group. Also, we are able to better focus our subjective reviews on the output of the objective new-idea generation screens that we run every day on areas in which we might desire additional exposure, be it

to augment a sector with minimal ownership or to add to a particularly undervalued industry. Illustrative of this process are the initial recommendations of stocks this month in Sectors like Consumer Discretionary and Energy.

There is a great deal of art accompanying the science of portfolio construction and Sector and Industry Group weightings are always used as a guide and not as the gospel. Over time, the gaps have narrowed, but inevitably there will be dispersion across the newsletter portfolios. Indeed, there is a difference in the number of holdings between TPS Portfolio (83) and the other three (87 to 91), while Buckingham and TPS Portfolios have been impacted by the usage (in years past) of margin leverage. ■

PORTFOLIO WEIGHTINGS

Sector	Industry Group	Russell 3K	Russell 3K Value	TPS	Buckingham	PruFolio	Millennium	Avg ¹
Consumer Discretionary		12.5	5.0	14.7	14.5	15.3	14.2	14.7
	Autos & Components	0.9	1.1	2.3	2.2	1.8	2.7	2.3
	Consumer Dur & App	1.4	0.7	3.3	2.1	4.2	2.6	3.0
	Consumer Services	2.2	0.9	1.1	1.4	1.2	1.4	1.3
	Media	3.0	0.9	4.0	3.7	3.9	1.9	3.4
	Retailing	5.0	1.4	4.0	5.2	4.2	5.6	4.7
Consumer Staples		8.3	7.6	4.0	2.8	3.8	5.0	3.9
	Food & Staples Retail	1.8	1.5	0.9	0.8	0.8	0.7	0.8
	Food Bev & Tobacco	4.8	3.7	2.0	2.1	2.0	3.4	2.3
	Household Products	1.7	2.4	1.1	0.0	1.1	0.9	0.8
Energy		7.0	13.0	6.8	6.8	6.6	7.1	6.8
Financials		15.5	27.3	18.9	19.9	21.6	20.7	20.3
	Banks	7.2	13.6	8.9	11.3	10.0	11.5	10.4
	Diversified Financials	5.3	8.6	4.9	4.8	5.2	4.0	4.7
	Insurance	3.0	5.1	5.1	3.8	6.3	5.3	5.1
Health Care		13.0	9.7	10.1	11.0	9.5	8.9	9.9
	Health Care Equip/Srvcs	5.1	3.5	4.1	5.1	3.9	3.3	4.1
	Pharma, Biotech & Life Sci	7.9	6.3	6.0	5.9	5.6	5.5	5.8
Industrials		10.8	10.2	12.6	12.1	11.9	12.8	12.4
	Capital Goods	7.7	7.5	6.4	7.7	7.5	6.3	7.0
	Commercial Services	0.9	0.5	1.9	1.7	1.6	0.9	1.6
	Transportation	2.2	2.2	4.3	2.7	2.8	5.6	3.8
Information Technology		19.9	9.5	18.0	17.8	18.8	18.4	18.2
	Semis & Cap Equipment	3.2	3.1	1.5	2.2	2.6	2.6	2.2
	Software	11.7	2.6	3.7	3.8	4.4	6.2	4.5
	Technology Hardware	5.0	3.8	12.8	11.7	11.8	9.6	11.5
Materials		3.4	3.0	5.6	5.9	6.8	5.7	6.0
Real Estate		4.0	5.1	0.6	0.5	0.0	0.9	0.5
Telecom Services		2.4	3.6	2.0	2.0	0.8	1.9	1.7
Utilities		3.1	6.0	1.1	0.9	1.0	1.0	1.0
Cash		0.0	0.0	5.6	6.0	4.0	3.5	4.8

Russell 3000, Russell 3000 Value and Newsletter Portfolios as of 12.31.16. ¹Average of the four newsletter portfolios. SOURCE: AI Frank using data from Russell Investments via Bloomberg

Graphic Detail

Performance Attribution

The following few paragraphs hardly do the subject justice, but the simple annual attribution displayed below (numbers are computed via a Bloomberg report and differ modestly in terms of portfolio-level total return from our Advent-calculated figures shown on Page 8) help to better understand how our newsletter portfolios are performing relative to our primary benchmark, the Russell 3000 index (R3K). They allow us to gain more insight into the impact of our investment decisions as we are able to see which market Sectors contributed the most (or least) to performance and how much of the performance difference can be attributed to allocation (Sector weighting), versus selection (stock picking).

For example, TPS Portfolio had a superb 2016, thanks in part to underweight positions in Health Care, Consumer Staples, Real Estate and Utilities, in addition to an overweight in Financials and Materials. Favorable stock selection in Info Tech, Health Care and Industrials overcame subpar stock picking in Energy and Financials.

Buckingham Portfolio also outperformed the R3K, though not by as wide a margin. The timing of changes in its exposure to Financials was a big plus, as were underweights in Consumer Staples and Real Estate. Our stock choices within Industrials, Info Tech, Financials and Consumer Staples proved beneficial, more than compensating for poor selection in the Energy Sector.

2016 PERFORMANCE ATTRIBUTION

Sector	TPS Portfolio			Russell 3000			Attribution Analysis	
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	15.1	11.2	1.9	13.1	7.2	1.0	-0.1	0.5
Consumer Staples	4.7	14.9	0.9	9.0	6.0	0.6	0.4	0.6
Energy	7.8	5.5	0.3	6.5	26.9	1.7	0.2	-1.8
Financials	18.0	22.0	3.8	16.4	24.9	3.6	0.5	-0.5
Health Care	9.8	7.8	0.8	14.1	-3.3	-0.5	0.8	1.2
Industrials	12.1	28.3	3.4	10.6	20.3	2.1	0.1	1.0
Information Technology	19.7	25.3	5.1	19.9	13.8	2.7	0.1	2.2
Materials	5.8	41.2	2.2	3.2	22.1	0.7	0.3	0.8
Real Estate	0.2	-1.5	0.0	1.4	-4.4	-0.2	0.4	0.0
Telecom Services	2.3	21.6	0.5	2.4	23.8	0.6	-0.2	-0.1
Utilities	2.0	12.5	0.5	3.4	17.7	0.6	0.4	-0.1
Cash	1.1	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Total:			19.4	Total:		12.7	3.0	3.9
Sector	Buckingham Portfolio			Russell 3000			Attribution Analysis	
	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	15.3	6.1	0.9	13.1	7.2	1.0	-0.1	-0.2
Consumer Staples	2.5	22.2	0.6	9.0	6.0	0.6	0.4	0.5
Energy	7.7	-4.9	-0.4	6.5	26.9	1.7	0.3	-2.6
Financials	16.3	28.1	4.9	16.4	24.9	3.6	0.7	0.6
Health Care	12.6	-4.1	-0.4	14.1	-3.3	-0.5	0.3	-0.2
Industrials	12.5	31.8	3.8	10.6	20.3	2.1	0.1	1.4
Information Technology	20.6	22.1	4.7	19.9	13.8	2.7	0.2	1.7
Materials	5.8	28.3	1.8	3.2	22.1	0.7	0.3	0.3
Real Estate	0.2	-1.5	0.0	1.4	-4.4	-0.2	0.4	0.0
Telecom Services	2.7	20.4	0.6	2.4	23.8	0.6	0.0	0.0
Utilities	1.3	12.5	0.2	3.4	17.7	0.6	0.1	-0.1
Cash	1.4	0.0	0.0	0.0	0.0	0.0	-0.1	0.0
Total:			16.5	Total:		12.7	2.5	1.4

Russell 3000, Russell 3000 Value and Newsletter Portfolios from 12.31.15 through 12.31.16. Holdings-based attribution using end-of-day account positions. Return figures do not include fees or transaction costs. Numbers may not sum due to rounding. SOURCE: AI Frank using data from Bloomberg

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 EPS	Sales	TBV ²	EV/ EBITDA ³	FCF Yield ⁴	Debt/ TE ⁵	Div Yield	Mkt Cap
Autos & Components	GM	General Motors	34.84	42.27	5.6	0.3	1.4	2.2	10.6	140%	4.4%	53,108
	GT	Goodyear Tire & Rubber	30.87	49.07	7.8	0.5	2.1	6.3	3.0	144%	1.3%	8,059
Banks	CM	Canadian Imperial	81.60	94.92	10.7	nmf	2.2	nmf	nmf	nmf	4.6%	32,413
Capital Goods	BA	Boeing	155.68	170.59	24.3	1.0	nmf	14.6	8.1	nmf	3.6%	96,080
	FLR	Fluor Corp	52.52	71.94	15.6	0.4	2.9	12.0	6.9	62%	1.6%	7,313
	GE	General Electric	31.60	37.65	20.3	2.3	nmf	36.9	-1.0	nmf	3.0%	279,546
Consumer Dur & App	MDC	MDC Holdings	25.66	40.40	15.3	0.6	1.0	14.4	1.0	67%	3.9%	1,321
	NKE	Nike Inc	50.83	73.10	23.7	2.5	7.1	16.5	2.6	29%	1.4%	84,654
Consumer Services	CCL	Carnival Corp	52.06	71.32	15.0	2.3	2.0	9.7	5.4	45%	2.7%	37,664
Diversified Financials	ANH	Anworth Mortgage Asset	5.17	6.38	9.2	nmf	0.8	nmf	nmf	nmf	11.6%	495
	COF	Capital One Financial	87.24	102.75	11.9	nmf	1.4	nmf	nmf	nmf	1.8%	42,076
Energy	• OII	Oceaneering Int'l	28.21	47.07	21.5	1.1	2.5	8.4	11.1	71%	2.1%	2,766
	RDS/A	Royal Dutch Shell PLC	54.38	74.27	26.2	0.5	1.3	14.1	-4.6	53%	5.9%	231,171
	• SLB	Schlumberger Ltd	83.95	112.14	54.9	4.1	15.7	83.2	4.0	236%	2.4%	116,800
	TNP	Tsakos Energy Navigation	4.69	11.12	5.9	0.8	0.3	7.8	-9.2	112%	4.3%	410
Food & Staples Retailing	CVS	CVS Health	78.91	131.28	13.9	0.5	nmf	8.7	10.6	nmf	2.5%	84,153
	WMT	Wal-Mart Stores	69.12	81.15	15.3	0.4	3.5	7.8	9.8	65%	2.9%	212,419
Health Care Equip/Srvcs	CAH	Cardinal Health	71.97	102.71	14.1	0.2	nmf	8.8	11.2	nmf	2.5%	23,035
	MDT	Medtronic PLC	71.23	94.67	15.9	3.4	nmf	14.3	5.0	nmf	2.4%	97,802
Household Products	KMB	Kimberly-Clark	114.12	138.99	19.0	2.2	nmf	12.6	5.3	nmf	3.2%	40,873
Insurance	ALL	Allstate	74.12	86.83	17.2	nmf	1.5	nmf	nmf	nmf	1.8%	27,294
	AZSEY	Allianz SE	16.48	23.23	10.3	nmf	1.3	nmf	nmf	nmf	3.7%	75,314
Media	DIS	Walt Disney	104.22	140.70	18.3	3.0	19.5	11.1	5.0	194%	1.5%	165,862
Pharma/Biotech/Life Sci	AMGN	Amgen	146.21	213.67	12.9	4.8	20.6	9.3	7.8	578%	3.1%	108,769
	GILD	Gilead Sciences	71.61	122.60	5.9	3.0	15.0	4.4	17.7	418%	2.6%	94,343
	JNJ	Johnson & Johnson	115.21	130.07	17.6	4.4	14.3	13.1	4.3	107%	2.8%	313,432
	MRK	Merck & Co	58.87	69.83	15.4	4.1	32.6	12.8	5.8	475%	3.2%	162,313
Real Estate	DLR	Digital Realty Trust	98.26	115.39	17.4	7.7	5.3	26.0	-5.6	4%	3.6%	15,865
Retailing	AEO	American Eagle Outfitters	15.17	23.22	11.9	0.8	2.5	4.8	8.1	0%	3.3%	2,759
	TGT	Target	72.23	87.61	14.2	0.6	3.8	6.5	8.1	112%	3.3%	40,571
	• WSM	Williams-Sonoma	48.39	71.33	14.0	0.8	3.7	6.6	8.7	0%	3.1%	4,251
Semis & Cap Equipment	INTC	Intel	36.27	42.17	13.6	3.0	4.2	8.5	6.2	59%	2.9%	171,884
	QCOM	Qualcomm	65.20	85.11	14.7	4.1	4.3	9.6	7.1	44%	3.3%	96,293
Software & Services	IBM	Int'l Business Machines	165.99	191.42	12.4	2.0	nmf	11.8	9.4	nmf	3.4%	157,832
	ORCL	Oracle	38.45	49.82	14.7	4.2	nmf	10.3	7.9	nmf	1.6%	157,735
Technology Hardware	AAPL	Apple	115.82	138.30	14.0	2.9	5.2	6.6	8.4	63%	2.0%	617,588
	CSCO	Cisco Systems	30.22	35.99	12.7	3.1	4.4	7.9	8.1	89%	3.4%	151,697
	JBL	Jabil Circuit	23.67	36.16	13.8	0.2	2.9	4.8	1.9	138%	1.4%	4,367
Telecom Services	NTT	Nippon Telegraph	42.07	57.21	11.3	0.9	1.7	5.0	15.4	56%	2.5%	88,195
Utilities	ETR	Entergy	73.47	85.24	8.8	1.2	1.4	7.7	-7.2	143%	4.7%	13,161

As of 12.31.16. 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: AI 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

Cash replenished in our newsletter portfolios from December buyouts and sales, we will add \$6,000 of **Allianz SE** and initial recommendations **Schlumberger** and **Williams-Sonoma** to Buckingham Portfolio. We will buy \$20,000 of first-time pick **Oceaneering Int'l** in PruFolio and we will pick up \$10,000 of **Medtronic** and **Qualcomm** in Millennium Portfolio. We will purchase \$29,000 of **American Eagle Outfitters**, **Canadian Imperial** and **Fluor Corp** in TPS Portfolio. We already own **MDC Holdings** in each of the accounts. We will transact on January 9.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AEO	American Eagle	Consumer Discretionary	15.17	23.22
AZSEY	Allianz SE	Financials	16.48	23.23
CM	Canadian Imperial Bank	Financials	81.60	94.92
FLR	Fluor Corp	Industrials	52.52	71.94
MDC	MDC Holdings	Consumer Discretionary	25.66	40.40
MDT	Medtronic PLC	Health Care	71.23	94.67
OII	Oceaneering Int'l	Energy	28.21	47.07
QCOM	Qualcomm	Information Technology	65.20	85.11
SLB	Schlumberger Ltd	Energy	83.95	112.14
WSM	Williams-Sonoma	Consumer Discretionary	48.39	71.33

As of 12.31.16. SOURCE: AI Frank using data from Bloomberg

American Eagle Outfitters (AEO)

American Eagle is a retailer of high-quality clothing focused on 15- to 25-year-old shoppers. The firm operates more than 1,000 stores under American Eagle and Aerie brands in North America, as well as 141 licensed international stores in 22 countries. Shares dropped more than 12% at the end of November after the company reported a decline in transactions in Q3 and a soft Q4 outlook due to a challenging retail climate and "choppy" shopper traffic. Still, American Eagle continues to see strong sales for bottoms and Aerie saw its sixth consecutive quarter with comparable sales growth above 20%, and management remains upbeat and sees plenty of opportunity to expand around the world. We believe that increasing brand momentum through more focused merchandising, selling higher quality products and improving e-commerce are ongoing initiatives that will add to the bottom line over time. AEO ended last quarter with total cash of \$292 million and management bought back \$212 million worth of shares within the past year, yet the balance sheet carries no long-term debt (though there are lease obligations). AEO trades for 12 times forward earnings and yields 3.3%.

Allianz SE (AZSEY)

Allianz is a 126-year-old global insurer and financial services firm with more than 85 million customers in 70 countries. Allianz is the world's largest property and casualty insurer, and its Global Investors arm (including bond manager Pimco) is one of the top 5 active asset man-

agers worldwide with nearly 2 trillion euros under management. The share price finished 2016 roughly where it began, and despite the quarter-point interest rate hike in December by the Federal Reserve, CFO Dr. Dieter Wemmer said, "I would expect that on all the model changes we have applied for [to maintain the Solvency II ratio], there might be a small positive overall, but that means a few points and nothing too dramatic." Allianz confirmed that it expects operating profit for 2016 to be 10.5 billion euros, plus or minus 500 million euros. Certainly, management is still treading carefully given recent geopolitical events, remaining more cautious than optimistic for at least the beginning part of 2017. Liking the desire to underpromise and overdeliver, we think the high quality shares are very inexpensive, trading for less than 10 times estimated earnings and 1.1 times tangible book value.

Canadian Imperial Bank (CM)

Canadian Imperial Bank, often referred to as CIBC (note that the ticker is CM), is the fifth-largest Canadian bank by market capitalization, providing banking services through three operating segments: Retail and Business Banking, Wealth Management and Wholesale Banking. In December, CM reiterated its commitment to buy PrivateBancorp in a deal that would allow the company to offer its services in the U.S. and further diversify its lending activity. CM reported better than expected earnings for fiscal Q4 (\$1.98 vs. \$1.85 est.). CEO Victor Dodig said, "We are transforming CIBC into a strong, innovative and relationship-oriented bank, a bank that is very well positioned to meet the evolving needs of our clients and to deliver future growth for our shareholders." Management also raised the dividend for the ninth time in ten quarters. Strong barriers to entry in Canada helping the core banking business, CM had a terrific 2016, up 30%, yet shares still trade at a relative discount with a forward P/E ratio under 11 and a 4.6% dividend yield.

Fluor Corp (FLR)

Fluor is one of the largest publicly traded engineering and construction concerns in the world. The company provides engineering, procurement, construction, operations, maintenance and project management services, and has an extended history of constructing and designing large complex projects for a variety of public and private customers. Its operations are contract-driven and diversified by both geography and business mix. Fluor shares regained ground in 2016 as energy prices rebound-

ed and the incoming Trump Administration said that it will focus on needed infrastructure spending across the country. In addition to the potential for new domestic infrastructure contracts, FLR already sports a strong backlog valued at \$44.3 billion, over 70% of which is made up of cost-plus contracts, which should reduce execution risk. While near-term uncertainty will remain as we find out if energy prices stabilize and curb customer capital expenditure cuts, we also remain attracted to FLR's solid free cash flow generation and balance sheet.

MDC Holdings (MDC)

MDC Holdings is a builder and seller of homes with ongoing operations in 169 communities throughout 9 states (including California, Colorado, Maryland, Virginia, Arizona and Florida) under the name Richmond American Homes, and also is an originator of mortgage loans and title agency services primarily to its home buyers. Despite the likelihood for higher interest rates in 2017, we remain constructive on MDC as the firm should continue to have pricing power and benefit from the improving U.S. economic backdrop, with a better outlook for employment, consumer confidence and wage inflation for its prospective customers. MDC also sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet, with ample liquidity that the company continues to smartly tap as it acquires land in attractive markets across the country. MDC trades for less than 11 times estimated earnings and offers a 3.7% dividend yield, while existing holders now have 5% more shares due to a stock distribution made last month.

Medtronic PLC (MDT)

Medtronic is one of the largest healthcare equipment companies in the world, developing and manufacturing therapeutic medical devices for chronic diseases. MDT markets its products to healthcare institutions and physicians in the U.S. and overseas. Shares have been pummeled since the fall of 2016, dropping more than 25%, as concerns about potential legislation to temper healthcare pricing, a revenue miss in the latest quarter and a handful of analyst downgrades have taken a toll. We believe that the selloff has been overdone, and are optimistic about the long-term prospects. We like that MDT has historically held a roughly 50% share in its core heart devices. It is also the market leader in spinal products, insulin pumps, and neuromodulators for chronic pain, and we like that the firm's pipeline is attractive with treatments for atrial

fibrillation, aortic stenosis and various neurological disorders. We also are constructive on MDT's significant emerging market presence and the potential for that exposure to drive long-term growth. Medtronic has a solid financial position and generates healthy free cash flow, while its shares trade at less than 15 times next-twelve-month earnings projections and yield 2.4%.

Oceaneering Int'l (OII)

Oceaneering is a global provider of engineered services and products primarily to the offshore oil and gas industry, with a focus on deepwater applications. Its business offerings include remotely operated vehicles, built-to-order specialty subsea hardware, deepwater intervention and manned diving services, non-destructive testing and inspection, and engineering and project management. While OII enjoyed a late-year rebound, the stock still fell more than 20% in 2016, given difficulties in the offshore energy space. While we expect near-term operating headwinds to remain, we want to maintain exposure to offshore, especially deepwater (to which OII is leveraged), as over the long-term, deepwater is seemingly critical to replenishing global oil reserves. We like that the company is rightsizing its operations and that OII has strong market positions and decent free cash flow generation, as well as a solid balance sheet and liquidity. Despite a recent reduction to its dividend, OII shares still yield 2.1%.

Qualcomm (QCOM)

Qualcomm is a designer and manufacturer of wireless communications equipment. The company holds a large number of wireless-related patents, and is a key contributor to the development of CDMA, a communications technology that is heavily used around the world. QCOM reported earnings of \$1.28 per share for fiscal Q4 2016, versus estimates of \$1.13. On December 27, the South Korean Fair Trade Commission announced that it won a record \$865 million fine against QCOM for violating antitrust laws. The written ruling will take four to six months to be released, but the press release stated that Qualcomm didn't negotiate license terms to phone makers fairly and forced customers to sign patent-license contracts when selling QCOM mobile phone chips. "Qualcomm strongly believes that the KFTC findings are inconsistent with the facts, disregard the economic realities of the marketplace, and misapply fundamental tenets of competition law," said Don Rosenberg, executive VP and general counsel. QCOM will appeal. QCOM's response also noted that the

ruling "imposes a fine that is insupportable and not reasonably related to the size of the Korean market." Patent issues, both pro and con, always part of the QCOM landscape, we continue to like that the stock yields 3.3%, in addition to sporting other attractive valuation metrics like a forward P/E ratio of 13.7 and zero net long-term debt.

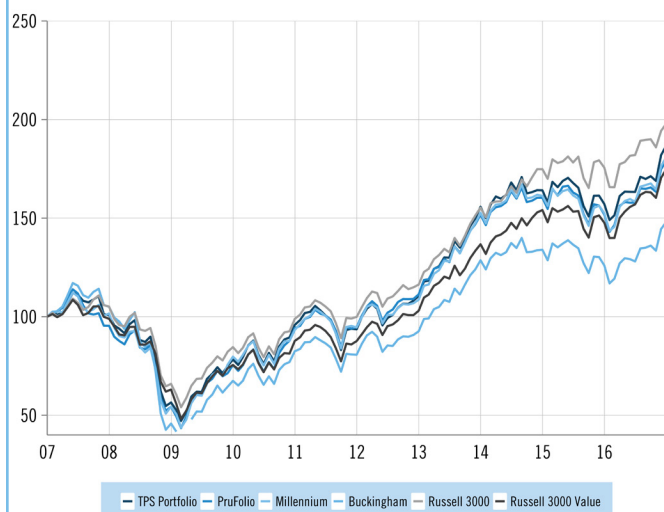
Schlumberger Ltd (SLB)

Schlumberger is the world's largest provider of services and equipment used in drilling, evaluation, completion, production and maintenance of oil and natural gas wells. Having the largest global oil services platform, a dominant international franchise, the potential benefits from its acquisition of Cameron (makes pressure control equipment, including valves and wellheads) and the most balanced exposures of the diversified service providers, we think SLB is one of the best positioned energy names to not only survive the turbulence in the oil patch but to thrive from an eventual upturn. We are pleased to see the company's internal transformation and restructuring initiatives taking hold. While we like a few other names in the space, we think SLB is the clear technology leader with an important reputation for consistent execution. Even through the downturn, SLB generated strong free cash flow. We see this new addition as a core energy holding in our dividend-focused portfolios as the yield of 2.4% is tops amongst its large-cap peers.

Williams-Sonoma (WSM)

Williams-Sonoma is a retailer of cooking equipment, home furnishings and home accessories through retail stores (Williams-Sonoma, Pottery Barn, PB Kids, PB Teen and West Elm), mail-order catalogs and e-commerce. WSM shares took a few beatings in 2016, including a more-than-10% drop since Q3 earnings in November. While those results were better than expected, WSM trimmed the high end of its 2016 outlook to between \$3.35 and \$3.45 (compared with \$3.35 to \$3.55 previously). Despite the paring of guidance, analysts expect the company to grow at around 8% per annum over the next three years, driven by the West Elm brand. West Elm continues to expand its footprint, having opened 10 locations in Q3, and will share an expanding "The Key" loyalty program with other WSM-family brands. We like WSM's balance sheet, which includes no long-term debt (though there are lease obligations). The company also has \$447 million remaining on its repurchase program, which it intends to execute over the next three years, and the stock yields a rich 3.1%. ■

NEWSLETTER PORTFOLIO PERFORMANCE



	Dec	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	2.52	17.50	17.50	4.81	12.91	4.00
Millennium	2.58	18.64	18.64	5.83	13.87	6.11
PruFolio	2.52	18.00	18.00	5.69	13.58	6.00
TPS	2.72	18.89	18.89	6.25	14.83	6.45
Major Indexes						
Russell 3000	1.95	12.72	12.72	8.43	14.66	7.07
Russell 3000 Value	2.62	18.38	18.38	8.54	14.81	5.75
S&P 500	1.97	11.95	11.95	8.86	14.65	6.95
Dow Jones Industrial Avg	3.44	16.50	16.50	8.71	12.92	7.52

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.66	9.47	Russell 3000
Millennium	12.31.99	9.36	5.01	Russell 3000
PruFolio	12.29.00	13.07	5.83	Russell 3000
TPS	03.10.77	17.86	10.84	S&P 500 ¹

Since *The Prudent Speculator's* launch in March 1977, its 1,862 stock recommendations have returned, on average, an annualized 17.15%, not including dividends.

As of 12.31.16. 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 measures 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 AFAMs 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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