October 3, 2017

the Prudent Speculator

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Leave it to scary September, historically the worst performing month of the year based on nearly nine decades of data, to see stocks march inexorably higher, so much so that Q3 2017 ended nicely in the green. Incredibly, the major market averages hit all-time highs, despite the significant escalation of tensions with North Korea, the catastrophic Hurricanes Irma and Maria that followed right behind devastating Harvey, the continued drama in Washington and the spike in interest rates after the Federal Reserve announced long-expected plans to curb the reinvestment of maturing debt securities and indicated that another hike in the Fed Funds rate is likely before year end. When all was said and done, the Russell 3000 index and S&P 500 respectively gained 4.57% and 4.48% last quarter, though even with significant outperformance in September, the Russell 3000 Value index advanced *only* 3.26%, versus a 5.93% increase for the Russell 3000 Growth index.

> "Whenever I hear people talk pessimistically about this country, I think they're out of their mind."
>
> —Warren Buffett

While one can not easily predict how the markets will react to the headlines—stocks soared on October 1, despite the deadliest mass shooting in modern U.S. history in Las Vegas—it is not as if there was no positive news during the quarter. After all, Q2 earnings reporting season generally was very good, with Bloomberg calculating that 72.0% of S&P 500 companies beat expectations, compared to 18.4% that missed, and Standard & Poor's now projecting that bottom-up operating EPS for the S&P 500 will jump to $127.04 this year and $144.71 next year, up from $106.26 last year. Fed Chair Janet Yellen also offered upbeat commentary on the health of the economy a couple of weeks back in conjunction with the latest FOMC meeting: "The basic message here is U.S. economic performance has been good…The American people should feel the steps we have taken to monetary policy are well justified given the very substantial progress we've seen in the economy." And, Republicans offered the hope of a possible corporate and personal income tax cut, though recent evidence in regard to the passage of any substantive legislation on Capitol Hill suggests the likelihood of significant tax reform is remote.

Looking ahead, we understand that October has had its share of spooky setbacks, and the doom-and-gloom crowd has been eager to remind that it was 30 years ago this month that the Dow Jones Industrial Average plunged more than 20% on Black Monday, but we agree with Warren Buffett who said last week, "Being short America has been a loser's game...I predict to you it will continue to be a loser's game."

That does not mean that the latest rally will continue unabated, especially as 5% drops have occurred on average more than twice a year, with the last one 15 months ago after the Brexit vote, and 10% corrections have happened on average more than once a year, with it now going on 20 months since the most recent in February 2016. But, despite all the frightening selloffs, the U.S. equity markets have proved to be very rewarding with long-term returns in excess of 10% per annum for the S&P 500 since 1926. Even better, undervalued stocks, like those that we have long favored, have enjoyed average annual returns north of 13% over the last 90 years.

Of course, those excellent performance numbers were available to those with the courage to stick with stocks through thick and thin, which is why we spend so much time preaching patience and discipline. No doubt, we are always braced for a downturn, but we know that far more money has been lost in trying to avoid the selloffs than has been lost in the inevitable pullbacks themselves, so we continue to see no reason to alter our optimism for the long-term prospects of our broadly diversified portfolios.

After all, we think, as Mr. Buffett just echoed, that equity valuations are reasonable within the context of the extraordinarily low interest rate climate, while we very much like what market history shows about rising rates and the stellar performance, on average, of Value stocks.

Chief Investment Officer
Al Frank Asset Management (AFAM)

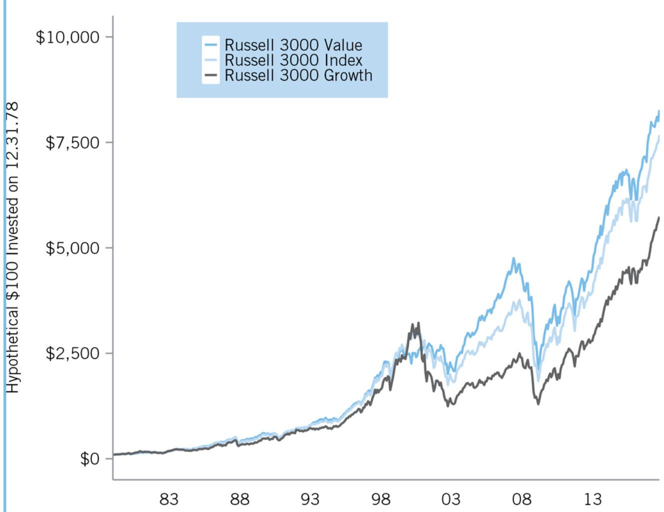
Graphic Detail

Benchmark Perspectives

While we would think that if told back in January that year-to-date returns at the end of Q3 would be in the double-digit percentages, most would have been pleased, it is not unreasonable to ask if we are having an unfavorable or favorable *relative* 2017. The answer is yes...based on the measuring stick. On the one hand, we realize that asset managers will always be compared to a broad-based index like the S&P 500 or Russell 3000 (admittedly, we have come up short so far this year), but those are mega-stock-dominated, market-cap-weighted measures. Given

LONG-TERM VALUE VERSUS GROWTH

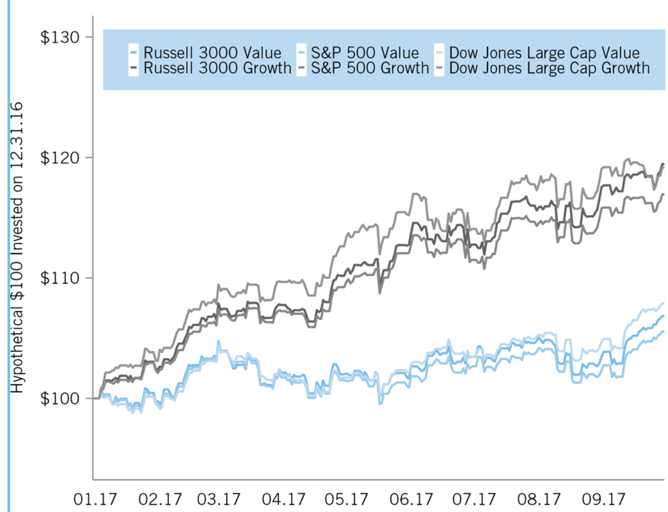
Dating back almost to the inception of *The Prudent Speculator* in 1977, Russell data shows that Value leads the long-term race.



From 12.31.78 through 09.30.17. SOURCE: Al Frank using data from Bloomberg

2017 VALUE VERSUS GROWTH

It has been a dramatically different story through the first three quarters of 2017, no matter the Value vs. Growth data provider.



From 12.31.16 through 09.30.17. SOURCE: Al Frank using data from Bloomberg

INDEX PERFORMANCE

Plenty of dispersion in performance numbers across the indexes, but our returns more closely resemble those of the Value indexes.

	Total Return				
Index	**YTD**	**3-Year**	**5-Year**	**7-Year**	**Incep***
Russell 3000	13.9%	10.7%	14.2%	14.3%	10.2%
Russell 3000 Value	**7.7%**	**8.8%**	**13.2%**	**13.2%**	**9.7%**
Russell 3000 Growth	20.4%	12.6%	15.2%	15.3%	10.6%
S&P 500	14.2%	10.8%	14.2%	14.4%	9.9%
S&P 500 Value Index	**8.5%**	**8.9%**	**13.2%**	**13.1%**	**9.3%**
S&P 500 Growth Index	19.3%	12.2%	15.0%	15.4%	10.2%
Dow Jones Industrial Avg.	15.5%	12.3%	13.6%	13.9%	10.0%
Dow Jones Large Cap Value	**11.0%**	**10.0%**	**13.5%**	**14.1%**	**9.5%**
Dow Jones Large Cap Growth	21.4%	12.1%	14.3%	14.9%	9.8%
Russell 2000 Value Index	**5.7%**	**12.1%**	**13.2%**	**12.8%**	**10.9%**
Russell 2000 Growth Index	16.8%	12.1%	14.3%	14.2%	11.7%
Buckingham	11.5%	7.6%	12.9%	12.4%	12.4%
Millennium	11.2%	8.1%	13.8%	13.4%	11.9%
PruFolio	11.5%	8.3%	13.0%	13.5%	13.0%
TPS	12.6%	9.0%	14.6%	13.8%	14.9%
Newsletter Portfolio Average	**11.7%**	**8.2%**	**13.6%**	**13.3%**	**13.0%**

As of 09.30.17. *The common inception for the four newsletter porfolios is 01.31.03. The index performance also begins on that date. SOURCE: Al Frank using data from Bloomberg

INDEX METRICS

Our portfolios sport average valuations that are less expensive than even the Value indexes, not to mention the S&P and Russell 3000.

Index	**Price/ Earnings**	**Price/ Sales**	**Price/ Book Val**	**Dividend Yield**
Russell 3000	23.1	2.0	3.0	1.9%
Russell 3000 Value	**19.9**	**1.6**	**2.0**	**2.4%**
Russell 3000 Growth	27.8	2.6	6.4	1.3%
S&P 500	21.6	2.1	3.2	2.0%
S&P 500 Value Index	**18.5**	**1.5**	**2.1**	**2.4%**
S&P 500 Growth Index	24.8	3.2	5.5	1.6%
Dow Jones Industrial Avg.	19.1	2.1	3.7	2.3%
Dow Jones Large Cap Value	**18.7**	**2.1**	**2.6**	**2.7%**
Dow Jones Large Cap Growth	26.7	2.8	5.6	1.0%
Russell 2000 Value Index	**37.3**	**1.0**	**1.6**	**1.9%**
Russell 2000 Growth Index	92.2	1.6	4.6	0.8%
Buckingham	15.9	1.1	1.8	2.7%
Millennium	16.4	1.2	1.9	2.6%
PruFolio	16.7	1.2	1.9	2.5%
TPS	16.6	1.1	1.9	2.5%
Newsletter Portfolio Average	**16.4**	**1.2**	**1.9**	**2.6%**

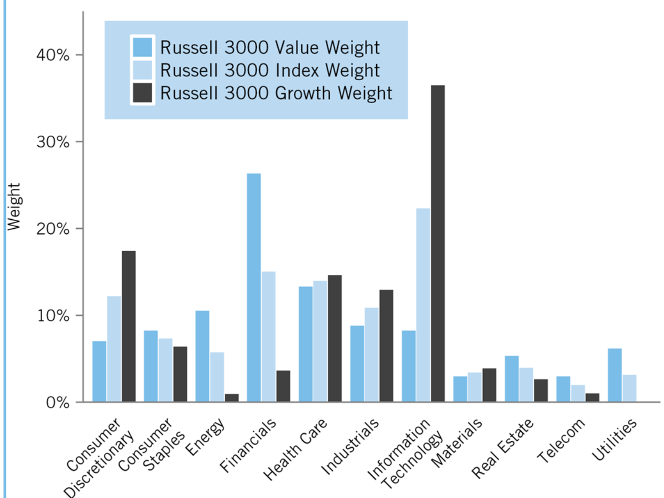
As of 09.30.17. Using a sector-based ETF (SPY) as proxy for Standard & Poor's 500. SOURCE: Al Frank using data from Bloomberg that we do not discriminate by size, as we buy small, medium and large companies, while generally we purchase equal dollar amounts of undervalued stocks, our portfolios really do not look like the S&P or R3K in terms of the composition of our holdings. Of course, sector weights in our portfolios are not too dissimilar from those benchmarks and the universe of stocks from which we screen for new ideas includes the entire Russell 3000.

On the other hand, we can argue that we are having a very nice relative return year, given that we have handily trumped the gains of the Value-based indexes. As we have always had a strong penchant for inexpensively priced stocks, the metrics of our portfolios much more closely resemble those of an index like the Russell 3000 Value.

As such, we think it valuable to consider both Russell gauges when grading our relative performance.

RUSSELL INDEX WEIGHTS

Consumer Discretionary, Energy, Financials and Info Tech are sectors with large differences between the various Russell indexes.



Index weights as of 09.30.2017. SOURCE: Al Frank using data from Bloomberg

YTD RUSSELL 3000 ATTRIBUTION

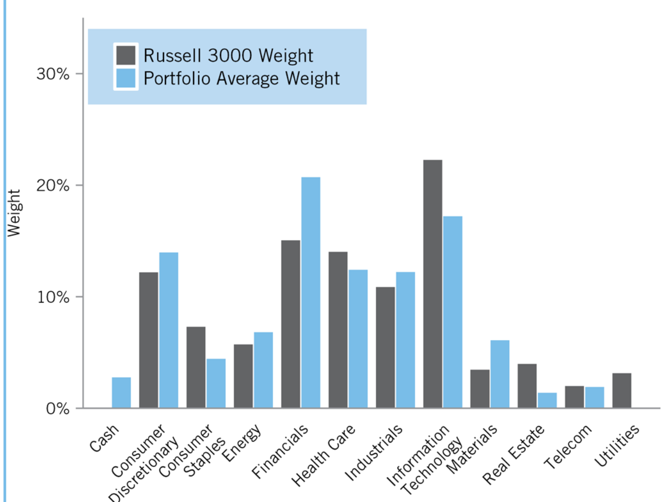
Overweights in top-performing sectors like Consumer Discretionary, Health Care and Info Tech have led the charge for Growth in 2017.

	Average Weight			Contribution		
Sector	**Value**	**3000**	**Growth**	**Value**	**3000**	**Growth**
Cons. Disc.	5.7%	12.6%	19.5%	0.4%	1.6%	2.8%
Cons. Staples	8.2%	8.1%	8.0%	0.7%	0.5%	0.4%
Energy	11.1%	5.9%	0.7%	-1.1%	-0.6%	-0.1%
Financials	26.7%	15.0%	3.2%	2.7%	1.7%	0.7%
Health Care	11.5%	13.6%	15.7%	1.6%	2.8%	4.0%
Industrials	10.4%	11.0%	11.7%	1.0%	1.6%	2.2%
Info Tech	9.3%	21.5%	33.6%	1.5%	5.3%	9.4%
Materials	2.5%	3.1%	3.8%	0.3%	0.5%	0.7%
Real Estate	5.2%	4.0%	2.8%	0.2%	0.3%	0.4%
Telecom	3.2%	2.1%	1.0%	-0.2%	-0.1%	0.0%
Utilities	6.3%	3.2%	0.1%	0.7%	0.4%	0.0%
Total				**7.7%**	**13.9%**	**20.4%**

As of 09.30.17. Average weight for period. Contributions may not sum to index returns due to rounding. SOURCE: Al Frank using data from Bloomberg

RUSSELL 3000 SECTOR COMPARISONS

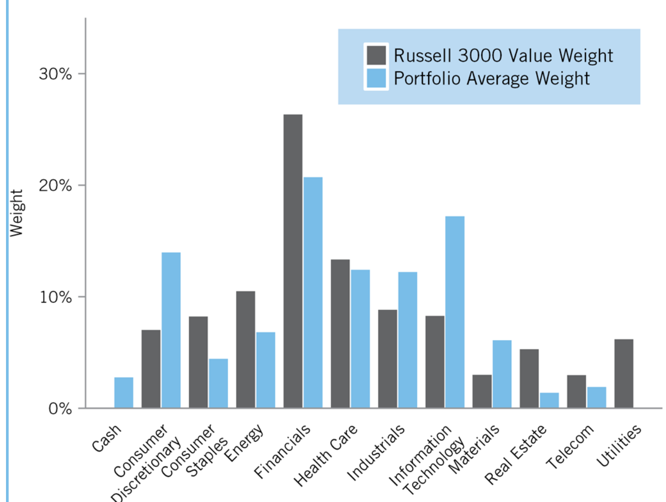
The sector weightings of our portfolios look more like those of the broad-based Russell 3000 index.



Index weights as of 09.30.17. SOURCE: Al Frank using data from Bloomberg

RUSSELL 3000 VALUE SECTOR COMPARISONS

We have long liked the Info Tech sector and we are not comfortable with the 27% weight in Financials in the Russell 3000 Value index.



Index weights as of 09.30.17. SOURCE: Al 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.

				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
Auto & Components	GM	General Motors	40.38	45.04	6.1	0.4	1.5	2.4	14.0	149%	3.8%	58,842
	GT	Goodyear Tire & Rubber	33.25	50.83	9.3	0.6	2.0	6.4	4.5	129%	1.2%	8,371
Banks	BAC	Bank of America	25.34	32.63	15.0	nmf	1.5	nmf	nmf	nmf	1.9%	267,352
	HSBC	HSBC Holdings PLC	49.41	56.16	18.0	nmf	0.9	nmf	nmf	nmf	5.2%	198,277
	KEY	KeyCorp	18.82	23.36	14.8	nmf	1.7	nmf	nmf	nmf	2.0%	20,468
Capital Goods	ARII	American Railcar	38.60	50.39	12.0	1.4	1.3	7.9	-4.1	97%	4.1%	737
	ETN	Eaton Corp PLC	76.79	84.95	17.5	1.7	nmf	13.2	5.7	nmf	3.1%	34,156
	SIEGY	Siemens AG	70.75	88.62	16.7	2.5	43.9	11.3	5.3	1238%	2.0%	120,275
Consumer Dur & App	MDC	MDC Holdings	33.21	48.30	14.1	0.7	1.3	11.2	14.9	63%	3.0%	1,723
Consumer Services	CCL	Carnival Corp	64.57	78.96	16.7	2.7	2.3	11.8	5.1	39%	2.5%	46,369
Diversified Financials	GS	Goldman Sachs Group	237.19	258.96	12.9	nmf	1.3	nmf	nmf	nmf	1.3%	95,564
Energy	SLB	Schlumberger Ltd	69.76	103.94	62.3	3.4	20.0	23.3	3.1	344%	2.9%	96,584
	TOT	Total SA	53.52	75.93	13.1	0.9	1.2	6.6	4.0	39%	3.6%	133,907
	XOM	Exxon Mobil	81.98	99.05	25.2	1.6	1.9	14.1	4.2	14%	3.8%	347,358
Food & Staples Retailing	KR	Kroger	20.06	33.84	10.5	0.2	9.0	5.9	7.7	663%	2.5%	17,844
	WBA	Walgreens Boots Alliance	77.22	121.50	15.9	0.7	16.9	12.6	7.9	295%	2.1%	82,633
Food Beverage & Tobacco	ADM	Archer-Daniels-Midland	42.51	51.83	16.9	0.4	1.8	11.4	9.0	45%	3.0%	23,913
Health Care Equipment	CAH	Cardinal Health	66.92	92.66	12.3	0.2	nmf	8.9	3.7	nmf	2.8%	21,094
	MDT	Medtronic PLC	77.77	97.22	16.6	3.5	nmf	15.1	4.5	nmf	2.4%	105,347
Household Products	KMB	Kimberly-Clark	117.68	145.20	19.5	2.3	nmf	12.1	5.6	nmf	3.3%	41,577
Insurance	AXS	Axis Capital Holdings	57.31	70.47	11.9	nmf	0.9	nmf	nmf	nmf	2.7%	4,766
	TRV	Travelers Cos	122.52	132.04	12.7	nmf	1.7	nmf	nmf	nmf	2.4%	33,809
Materials	ABX	Barrick Gold	16.09	24.63	19.6	2.1	2.3	4.6	6.7	91%	0.7%	18,761
	AGU	Agrium	107.21	125.20	23.0	1.1	3.8	11.6	4.5	112%	3.3%	14,814
Media	DIS	Walt Disney Co	98.57	133.58	17.2	2.7	19.3	10.4	5.6	239%	1.6%	152,141
Pharma/Biotech/Life Sci	BIIB	Biogen	313.12	437.85	15.3	5.7	18.1	11.9	4.7	163%	0.0%	66,204
	PFE	Pfizer	35.70	43.79	14.6	4.1	nmf	13.3	6.2	nmf	3.6%	212,320
	SHPG	Shire PLC	153.14	260.16	11.0	3.2	nmf	20.8	5.3	nmf	0.2%	46,365
Real Estate	DOC	Physicians Realty Trust	17.73	25.33	16.7	nmf	1.5	nmf	nmf	nmf	5.2%	3,177
	REG	Regency Centers	62.04	89.90	17.7	nmf	1.7	nmf	nmf	nmf	3.4%	10,564
Retailing	DSW	DSW Inc	21.48	29.28	15.2	0.6	2.0	5.2	7.5	0%	3.7%	1,726
	FL	Foot Locker	35.22	65.92	7.9	0.6	1.6	3.2	8.9	5%	3.5%	4,367
	LOW	Lowe's Cos	79.94	111.77	18.4	1.0	15.6	10.6	7.1	369%	2.1%	66,575
Software & Services	ORCL	Oracle	48.35	58.89	32.0	5.3	35.1	12.3	6.3	839%	1.6%	201,767
Technology Hardware	AAPL	Apple	154.12	175.93	17.5	3.6	6.4	9.1	6.3	72%	1.6%	796,065
	JBL	Jabil Inc	28.55	39.93	13.5	0.3	3.5	5.3	10.3	112%	1.1%	5,117
	STX	Seagate Technology PLC	33.17	43.36	8.1	0.9	nmf	6.8	14.6	nmf	7.6%	9,547
Telecom Services	NTTYY	Nippon Telegraph	45.72	60.00	11.0	0.9	1.7	5.5	15.2	52%	2.0%	95,847
Transportation	DAL	Delta Air Lines	48.22	65.41	9.8	0.9	nmf	5.0	3.7	nmf	2.5%	34,913
	DPSGY	Deutsche Post AG	44.68	55.04	16.4	0.8	nmf	10.1	3.7	nmf	2.5%	54,225

As of 09.30.17. 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: 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 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 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 we usually add the names to one of 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. And, until such time as we say sell, any of our 100+ recommended stocks should be viewed as a worthy purchase candidate.

This Month's Theme

Still having a modest amount of cash to redeploy in three of our four newsletter portfolios, we will bring the positions in **Foot Locker** and **ExxonMobil** up to $6,000 in Buckingham Portfolio, we will add $10,000 of **American Railcar** to Millennium Portfolio and we will purchase $20,000 of **Biogen** in PruFolio. We will buy on October 9, waiting our usual four days to transact. We already have sufficient ownership in **Archer-Daniels**, **Agrium**, **Walt Disney**, **MDC Holdings**, **Nippon Telegraph** and **Seagate Tech**, so no additional purchases of those six this month.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ADM	Archer-Daniels-Midland	Food Beverage	42.51	51.83
AGU	Agrium	Materials	107.21	125.20
ARII	American Railcar	Capital Goods	38.60	50.39
BIIB	Biogen	Pharma, Biotech	313.12	437.85
DIS	Walt Disney	Media	98.57	133.58
FL	Foot Locker	Retailing	35.22	65.92
MDC	MDC Holdings	Consumer Durables	33.21	48.30
NTTYY	Nippon Telegraph	Telecom Services	45.72	60.00
STX	Seagate Tech	Technology Hardware	33.17	43.36
XOM	Exxon Mobil	Energy	81.98	99.05

As of 09.30.17. SOURCE: Al Frank using data from Bloomberg

Archer-Daniels Midland (ADM)

Archer-Daniels, one of the largest agricultural processors and food ingredient providers in the world, is in the business of converting agricultural harvest such as corn, wheat and soybeans into basic ingredients for both consumer and industrial product manufacturers. Though the stock price is down in 2017, shares have strengthened a bit since the company reported better than expected Q3 earnings on improving demand for exported U.S. corn and soybean products, the continuation of strategic operating measures and cost-cutting initiatives. Additionally, we were pleased to see the jump in free cash flow during the quarter. While operational headwinds remain, we are optimistic about the longer-term global secular growth trends in agriculture and we like that ADM's scale gives it advantages over regional competitors. We also note that the company continues to work to strengthen its balance sheet, reshape its portfolio and return cash to shareholders as the dividend yield is currently 3.0%.

Agrium (AGU)

Agrium is one of the largest retail suppliers of agricultural products and services in North America, South America, Europe and Australia, as well as a wholesale producer and marketer of all three major agricultural nutrients (nitrogen, potash and phosphates). With some regulatory hurdles remaining in the U.S. and China (they have been cleared in Canada, Brazil and Russia), AGU plans to merge with Potash Corp, which will create the world's largest crop nutrient company, and will go by the name of Nutrien. Despite a challenging North American agricultural pricing environment, we remain constructive on AGU's retail business, owing to numerous growth drivers (including attractive bolt-on acquisitions) and a lower-risk business model. While the wholesale business has lagged, we see opportunity for improvements via synergies and scale with its coming marriage to Potash, and we remain positive on the long-term prospects of the company and its diversified business, as well as the long-term potential of agriculture in general. The decline of global arable land, continued population growth and the growing demand for increased meat proteins in emerging economies should force farmers to be more productive and should drive growth of crop inputs. AGU yields 3.3%.

American Railcar (ARII)

ARII is a designer and manufacturer of hopper and tanker railcars. The company also leases, repairs and refurbishes railcars, provides fleet management services and designs and manufactures certain railcar and industrial components. Shares are down 13% this year as weakness in the tanker market persists and the more-in-demand hopper market is quite price competitive. While the company will continue to endure headwinds in the coming quarters, we see opportunity from bringing the management of its leasing business in-house and note that the firm's current backlog of business sits at $270 million. Though there have been no share repurchases in 2017, ARII has approximately $164 million left on its authorized buyback program (which currently represents 21% of market capitalization). ARII shares carry a current dividend yield of 4.1%, and we note that Carl Icahn's Icahn Associates owns 62% of the outstanding ARII shares, leaving precious few available for public trading.

Biogen (BIIB)

Biogen discovers, develops and delivers innovative therapies for the treatment of neurodegenerative diseases and autoimmune disorder, leading the $20+ billion global Multiple Sclerosis market with Avonex, Tysabri and Tecfidera. Biogen's neurology pipeline outside of MS, including new spinal muscular atrophy drug Spinraza, which showed rapidly accelerating growth in Q2, should help diversify revenue and further boost sales growth. We were encouraged to see the firm turn in a strong Q2 and continue to be attracted to its strong free cash flow generation and its willingness to aggressively buy back shares while investing in the future. With cash and marketable securities of $5.5 billion, BIIB also has the ability to grow via acquisition, or continue to heavily invest in its promising drug pipeline. Shares trade at just 14 times the next-twelve-month earnings projection.

Walt Disney (DIS)

Disney operates one of the largest diversified media companies in the U.S. and is a global leader in producing branded family entertainment. Shares are down more than 10% since spring as ad rates and consumers 'cutting the cord' from traditional cable delivery have negatively impacted its ESPN television network franchise. Additionally, CEO Bob Iger, who will retire in 2019, recently announced that near-term profitability will be impacted by lost revenue due to Hurricane Irma, continued headwinds in its media network biz and more-aggressive investments into its direct-to-consumer streaming services and movie/television catalog. While the near-term will be challenging, we continue to believe DIS is a must-own with its unparalleled content. Additionally, we see potential positive catalysts in the growth of Shanghai Disney, with the opening of *Toy Story Land*, the doubling of its cruise fleet and the *25th Anniversary Celebration* at Disneyland Paris, in addition to four Marvel, two Pixar and two Lucasfilm movie releases prior to the end of 2018. DIS trades for a very reasonable 16 times estimated earnings.

Foot Locker (FL)

Foot Locker is an athletic footwear and apparel retailer, operating 3,359 stores throughout North America, Europe, Australia and New Zealand. FL's marketing format also includes Champs Sports, Footlocker.com and Eastbay. In the midst of a pricing war, lower foot traffic, online competition growth, concerns about recent style misses by some of the athletic shoe manufacturers and weak near-term guidance, FL shares have plummeted more than 50% this year. While we don't see the landscape improving in the near-term, we believe that the plunge in the stock has been well overdone, offering hearty investors a very compelling valuation story. Yes, changing consumer preferences and growing competition from Amazon and others are perpetual issues, but FL has historically been able to turn in strong results (current EPS estimates for fiscal 2018 and 2019 stand at $3.97 and $4.02), with broad strength across distribution channels, geographic locations, banners and product categories. We believe the company has the potential to turn things around with its strategic cost control and productivity plans, willingness to shutter non-essential locations, a rebound in the specialty sneakers it exclusively offers from the likes of Nike and Adidas, and solid growth of its digital shopping platforms. Further, we like the balance sheet ($7+ of net cash per share), the forward P/E ratio of 9 and the 3.6% yield.

MDC Holdings (MDC)

MDC is a builder and seller of homes with ongoing operations in numerous 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 modestly higher interest rates and the likelihood that they will move higher still, MDC has performed well, posting better-than-expected EPS the last three quarters. And going forward, we remain constructive as the U.S. economy continues to show improvement, with a solid outlook for employment, consumer confidence and wage inflation for its prospective customers. MDC 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. The firm's backlog now stands at $1.68 billion, growing on stronger pricing as well as unit increases. MDC trades for 13 times NTM adjusted earnings and yields 3.0%.

Nippon Telegraph & Telephone (NTTYY)

NTT is Japan's largest comprehensive telecom company with top market share in both fixed-line and mobile telecom businesses. NTT dominates the Japanese fiberoptic market with fixed-line market share of approximately 68% and, as a majority owner of DoCoMo, is the largest Japanese wireless provider with some 46% subscription market share in that space. NTT continues to be successful in cross-selling and total subscriber adds for mobile communication services in Japan. Additionally, we like management's continued focus on cost controls, push for NTT group companies to better collaborate and efforts to strengthen and grow its global cloud services business. Further, we are constructive on the firm's overall large customer reach, wide array of services and solid cash flow generation. We also like the recent announcement to buy back approximately 30 million of its shares. NTT offers a 2% net dividend yield and trades for less than 12 times next-12-month earnings estimates, less than one time sales and near book value. Also, the stock, which is off 9% since early August, offers a nice entry point.

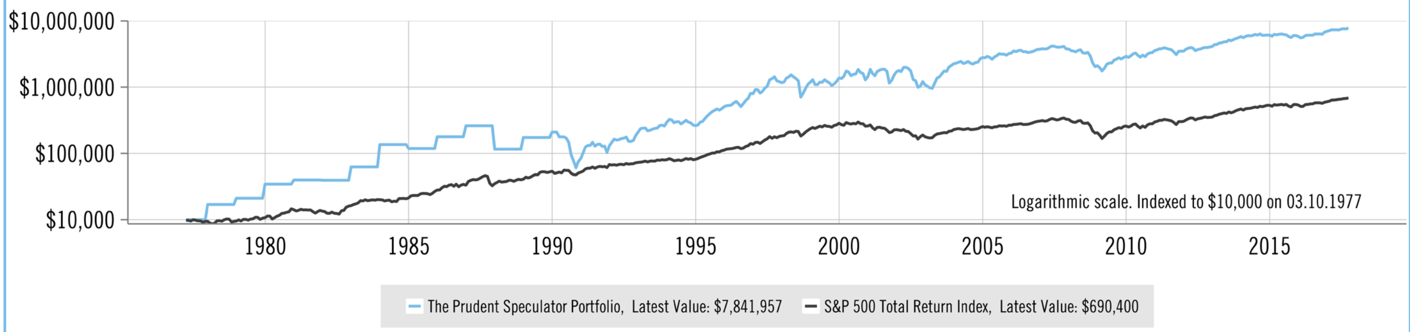
Seagate Tech (STX)

Hard disk drive maker Seagate has had a wild 2017, rising 30% over the first third of the year, only to see shares lose a third of their value since, due to lackluster financial results and guidance. While there is still plenty of money to be made in the spinning drive space, especially as enterprise storage demand increases (specifically related to cloud customers), we think that new management will need to be creative to solve the solid-state drive competition problem. With plenty of cash flow and a solid balance sheet, Seagate appears to have taken an important step to stay on the bleeding edge of storage technology as it was just announced that the company plans to purchase $1.25 billion of preferred stock (with a 5% dividend yield) in a consortium, which includes Apple, that will acquire Toshiba Memory. Separately, STX said that it will enter into a long-term NAND supply agreement with Toshiba, which we assume will occur at favorable pricing. The investment is supposed to be immediately accretive and we don't see it impacting the dividend in the near-term (STX yields 7.6%). Shares offer an attractive valuation, trading at just 9.2 times NTM adjusted earnings estimates, and demand for data storage remains voracious.

ExxonMobil (XOM)

Exxon is the world's largest integrated oil and gas company, but the stock is down more than 9% in 2017, despite oil prices rebounding to more than $50 per barrel recently. Business conditions will remain pressured, but we still subscribe to the long-term global-energy story that usage in emerging economies will continue to rise. We like that the company is well-run and that management is focused on operating fundamentals in this lower price environment. Exxon generates strong cash flow from operations and is comfortably able to cover the investments in the business and dividend payments. Additionally, XOM is the only energy player with a Aaa credit rating (issued by Moody's) and its fortress balance sheet and capital discipline gives it the financial flexibility to selectively invest in higher-value products and potentially acquire assets at a discount. We are constructive on XOM's cost-control initiatives and the value that its upstream and downstream operations achieve due to a high level of integration. We also like the research and investment in reliable alternative energy sources for the future. XOM yields 3.8%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Sep	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	3.75	11.57	21.44	7.60	12.94	3.92	NA
Millennium	3.95	11.21	20.09	8.11	13.77	6.93	12.02
PruFolio	2.96	11.48	20.65	8.27	13.00	6.98	12.48
TPS	3.67	12.60	22.86	9.00	14.59	6.82	14.79
Major Indexes							
Russell 3000	2.44	13.91	18.71	10.74	14.23	7.57	10.37
Russell 3000 Value	3.26	7.72	15.53	8.79	13.20	6.01	9.89
S&P 500	2.06	14.24	18.60	10.80	14.21	7.44	10.04
Dow Jones Indu. Avg.	2.16	15.45	25.45	12.35	13.57	7.72	10.23

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	11.90	9.97	Russell 3000
Millennium	12.31.99	9.66	5.56	Russell 3000
PruFolio	12.29.00	13.15	6.39	Russell 3000
TPS	03.10.77	17.89	11.02	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,877 stock recommendations have returned, on average, an annualized 17.22%, not including dividends.

IMPORTANT INFORMATION

As of 09.30.17. All data are total returns, except for that of all recommended stocks, which exclude dividends. Data for periods greater than one year are annualized. The Dow Jones Industrial Average Index is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrial, including stocks that trade on the New York Stock Exchange and NASDAQ. The Russell 3000 Index measures the performance of the largest 3,000 US companies and represents approximately 98% of the investable US equity market. 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. 1 The 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. It is not possible to invest directly in an index. 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 has 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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