January 5, 2015

the Prudent Speculator

579

Established in March 1977 • 85 Argonaut, Suite 220 • Aliso Viejo, California 92656 • 800.258.7786

As we knew the total returns of 36% to 41% for our four newsletter portfolios in 2013 would be very tough acts to follow, we have mixed emotions about the modest 4% to 6% returns posted last year.

On the one hand, whether it was the transition in leadership and the tapering of the QE3 bond-buying program at the Federal Reserve, the invasion of Ukraine and annexation of Crimea by Russia, the rise of the Sunni militant Islamic State of Iraq/Syria/Levant and eventual U.S. military engagement, the Argentinian debt default, the lackluster economic growth in Europe or the major U.S. Ebola scare, there were plenty of headwinds that had to be overcome.

> "There is no safety. Only varying degrees of risk."
> —Lois McMaster Bujold

On the other hand, the S&P 500 managed to advance 13.7% in 2014, while our benchmark Russell 3000 index climbed 12.6% on a total-return basis, so our returns would have to be viewed as disappointing, even as we suspect that many would rather make money and trail the market averages than lose money and outperform.

Of course, the Dow Jones Industrials returned *only* 10.0%, the S&P SmallCap 600 gained 5.8% and the Russell 2000 index moved up 4.9%. And four of the ten S&P 500 sectors (Industrials, Consumer Discretionary, Materials & Telecom) managed only single-digit returns, while energy actually endured a 7.8% negative return. No doubt, the plunge in commodities last year (the S&P GSCI index plummeted 33.1%) hit the Industrials, Materials and Energy sectors, while the strength in the dollar didn't help matters for many multinational U.S.-based companies, not to mention those domiciled overseas.

Indeed, 2014 was a handsome year for only a handful of equity markets, with stocks outside the U.S. struggling mightily. In fact, the S&P Asia 50 index gained only 2.0%, the Europe 350 index was off 5.3% and the S&P Latin America 40 index tumbled 11.1%. The primary global non-U.S. equity-market benchmark, the MSCI ACWI ex-U.S. index, actually declined by 3.9%. Alas, while we like the diversification that our global focus provides, our portfolios generally were not helped last year by the foreign companies that we hold via American Depository Receipts.

Looking more closely at the U.S., performance numbers for our market-capitalization-weighted Russell 3000 benchmark masked what was happening throughout the index as the respective average and median stock returns were much more subdued at 5.5% and 4.2%. Needless to say, it was a tough year for stock pickers, as the performance attribution on Page 3 will attest, but the fact that many stocks failed to gain much ground in 2014 should provide some comfort to those concerned about the recent highs on the major market averages.

We like how our broadly diversified portfolios of undervalued stocks are positioned heading into the new year. After all, Bloomberg calculations show that the trailing 12-month P/E ratio on TPS Portfolio is currently 16.1, compared to 19.8 for the Russell 3000 index, while the latest dividend yield of 2.6% is nicely higher than the benchmark's 1.8%.

And with interest rates again heading south as the yield on the 10-year U.S. Treasury is threatening to crack 2%, we continue to think that equities remain very attractive relative to income that can be generated from competing asset classes. In addition, corporate balance sheets and income statements generally are in terrific shape, with solid overall earnings growth projected in 2015, U.S. economic data generally have been upbeat and global central bankers continue to support growth initiatives over inflation-fighting measures. Though we are braced for an increase in near-term volatility (we are reminded that the Dow Jones Industrial Average dropped more than 5% last January) amidst renewed concerns over Greece and the viability of the euro, not to mention the uncertainty related to the resumption of the crash in the price of oil, we are optimistic that U.S. stocks will post solid gains during this favorable third year of the Presidential Cycle.

Chief Investment Officer
Al Frank Asset Management (AFAM)

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. 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 our benchmark index in order to ensure that we are comfortable in the over- or under-weighting 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 recent initial recommendations of tech giant **Qualcomm** (QCOM—$73.93), engineering/construction concern **Fluor** (FLR—58.56) and automaker **Honda Motor** (HMC—$28.98).

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 Millennium Portfolio (81) and PruFolio (90), while Buckingham and TPS Portfolios have been impacted by the usage (in years past) of margin leverage.

PORTFOLIO WEIGHTINGS

Sector	Industry Group	Russell 3000	TPS	Buckingham	PruFolio	Millennium	Avg[1]
Consumer Discretionary		**12.8**	**12.2**	**14.5**	**14.7**	**14.1**	**13.9**
	Autos & Components	1.1	0.0	0.0	0.9	0.9	0.5
	Consumer Dur & App	1.6	2.7	2.1	3.9	3.9	3.1
	Consumer Services	2.1	0.0	3.4	0.0	3.5	1.7
	Media	3.5	3.8	3.5	3.8	0.0	2.8
	Retailing	4.5	5.8	5.5	6.0	5.8	5.8
Consumer Staples		**8.5**	**6.4**	**6.5**	**5.6**	**6.5**	**6.2**
	Food & Staples Retail	2.2	2.4	1.4	1.1	1.0	1.5
	Food Bev & Tobacco	4.5	4.0	5.1	3.3	4.4	4.2
	Household Products	1.9	0.0	0.0	1.2	1.0	0.6
Energy		**7.5**	**11.7**	**11.3**	**11.2**	**9.4**	**10.9**
Financials		**18.0**	**17.8**	**15.7**	**18.5**	**17.7**	**17.4**
	Banks	6.1	8.2	6.5	6.9	8.7	7.6
	Diversified Financials	4.9	3.9	2.9	4.5	1.3	3.1
	Insurance	3.1	4.0	3.9	5.0	5.4	4.6
	Real Estate	4.0	1.9	2.4	2.1	2.3	2.2
Health Care		**14.0**	**9.9**	**7.4**	**7.3**	**9.0**	**8.4**
	Health Care Equip/Srvcs	5.0	3.5	5.2	4.6	5.4	4.7
	Pharma, Biotech & Life Sci	9.1	6.4	2.3	2.7	3.6	3.7
Industrials		**11.4**	**11.9**	**12.4**	**11.0**	**11.7**	**11.7**
	Capital Goods	7.8	5.2	6.0	5.1	6.0	5.6
	Commercial Services	1.0	2.8	2.9	2.6	1.5	2.4
	Transportation	2.6	3.9	3.5	3.2	4.2	3.7
Information Technology		**19.0**	**21.0**	**21.0**	**22.9**	**21.4**	**21.6**
	Semis & Cap Equipment	2.5	3.2	1.5	2.6	3.0	2.6
	Software	10.3	5.1	5.7	6.7	7.1	6.1
	Technology Hardware	6.2	12.8	13.9	13.6	11.2	12.9
Materials		**3.6**	**5.8**	**6.7**	**5.1**	**5.4**	**5.7**
Telecom Services		**2.0**	**1.0**	**1.0**	**0.8**	**1.0**	**1.0**
Utilities		**3.2**	**1.2**	**0.0**	**1.4**	**2.7**	**1.3**
Cash		**0.0**	**1.2**	**3.5**	**1.9**	**1.2**	**2.0**

Russell 3000 and Newsletter Portfolios as of 12.31.14. [1]Average of the four newsletter portfolios. SOURCE: Al 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 reports displayed below help to better understand how our newsletter portfolios are performing relative to our Russell 3000 benchmark index. They allow us to gain 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).

With Energy, Materials and Industrials (areas where we continue to find great value) the largest negative contributors, thanks to a larger allocation and weaker selection, Millennium Portfolio underperformed the Russell 3000 by 660 basis points during 2014. Strong selection in the Consumer Discretionary and Consumer Staples sectors helped, but an underweight position in Health Care and miserable picking within Telecom hurt performance.

Alas, returns in Buckingham Portfolio were actually weaker still, with the 850-basis-point Russell 3000 performance gap driven by many of the same negative contributions as in Millennium Portfolio. An even larger weighting in Industrials and smaller exposure to Health Care, in addition to having no holdings in Utilities, accounted for the bulk of the dismal Millennium comparison. The 4.3% average cash position also did not aid the cause.

2014 PERFORMANCE ATTRIBUTION

	Millennium Portfolio			Russell 3000			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	10.7	19.1	2.3	12.7	9.2	1.2	0.2	1.3
Consumer Staples	6.3	25.9	1.5	8.4	15.9	1.3	-0.1	0.6
Energy	12.2	-18.8	-2.1	9.1	-10.0	-0.8	-0.7	-1.2
Financials	16.7	11.9	2.0	17.5	14.4	2.5	0.0	-0.4
Health Care	8.2	17.1	1.3	13.3	25.1	3.2	-0.6	-0.6
Industrials	12.2	-7.7	-1.0	11.5	8.0	1.0	-0.1	-2.1
Information Technology	19.9	17.3	3.2	18.5	17.8	3.2	0.1	-0.2
Materials	6.7	-18.2	-1.2	3.8	5.7	0.2	-0.2	-1.8
Telecom Services	1.8	-30.6	-0.5	2.2	2.6	0.1	0.1	-0.7
Utilities	2.3	24.8	0.6	3.1	26.9	0.8	-0.1	0.0
Cash	3.1	0.0	0.0	0.0	0.0	0.0	-0.3	0.0
	Total:		**6.0**	**Total:**		**12.6**	**-1.6**	**-5.0**

	Buckingham Portfolio			Russell 3000			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	12.9	18.3	2.3	12.7	9.2	1.2	0.1	1.2
Consumer Staples	6.1	23.9	1.3	8.4	15.9	1.3	-0.1	0.4
Energy	12.2	-19.6	-2.9	9.1	-10.0	-0.8	-1.1	-1.5
Financials	15.7	9.6	1.5	17.5	14.4	2.5	-0.1	-0.7
Health Care	6.2	24.3	1.3	13.3	25.1	3.2	-0.8	-0.1
Industrials	14.1	-10.8	-1.5	11.5	8.0	1.0	-0.1	-2.8
Information Technology	19.8	20.9	3.8	18.5	17.8	3.2	0.1	0.6
Materials	7.3	-16.4	-1.3	3.8	5.7	0.2	-0.2	-1.8
Telecom Services	1.5	-24.4	-0.4	2.2	2.6	0.1	0.1	-0.5
Utilities	0.0	0.0	0.0	3.1	26.9	0.8	-0.4	0.0
Cash	4.3	0.0	0.0	0.0	0.0	0.0	-0.7	0.0
	Total:		**4.1**	**Total:**		**12.6**	**-3.3**	**-5.2**

Russell 3000 and Newsletter Portfolios from 12.31.13 through 12.31.14. Holdings-based attribution using end-of-day account positions. Performance figures do not include fees or transaction costs. SOURCE: Al Frank using data from Russell Investments via 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/	Debt/	Div	Mkt
Industry Group	Ticker[1]	Company	Price	Price	EPS	Sales	TBV[2]	EBITDA[3]	TE[4]	Yld	Cap
Autos & Components	HMC	Honda Motor Co Ltd	29.52	41.36	8.8	0.4	0.9	7.1	51%	2.2%	53,473
Banks	CM	Canadian Imperial Bank	85.95	101.20	9.6	nmf	2.2	nmf	nmf	4.3%	34,127
	HSBC	HSBC Holdings PLC	47.23	63.83	9.3	nmf	1.1	nmf	nmf	5.2%	181,489
Capital Goods	CAT	Caterpillar	91.53	113.90	14.0	1.0	6.3	6.8	303%	3.1%	55,412
	FLR	Fluor	60.63	83.15	14.8	0.4	2.7	5.7	14%	1.4%	9,472
	GE	General Electric Co	25.27	33.77	15.5	1.7	5.9	10.8	518%	3.6%	253,766
	• TRN	Trinity Industries	28.01	52.35	7.5	0.8	2.0	5.4	138%	1.4%	4,359
Consumer Dur & App	COH	Coach	37.56	52.40	13.1	2.2	5.0	8.2	0%	3.6%	10,351
	MDC	MDC Holdings	26.47	43.17	14.6	0.8	1.1	19.1	95%	3.8%	1,292
Diversified Financials	CS	Credit Suisse Group AG	25.08	41.96	9.1	nmf	1.1	nmf	nmf	3.1%	40,308
Energy	APA	Apache	62.67	109.36	9.8	1.7	0.8	3.7	33%	1.6%	23,594
	E	Eni SpA	34.91	53.31	10.3	0.9	1.6	4.1	36%	6.0%	63,435
	ESV	Ensco PLC	29.95	46.11	4.8	1.4	0.8	8.4	55%	10.0%	7,016
	HAL	Halliburton Co	39.33	68.15	10.5	1.1	2.5	5.6	59%	1.8%	33,331
	HFC	HollyFrontier	37.48	53.92	12.6	0.4	2.1	5.9	29%	8.8%	7,336
	PGN	Paragon Offshore PLC	2.77	7.03	1.5	0.1	0.5	nmf	329%	18.1%	235
	RDS/A	Royal Dutch Shell PLC	66.95	91.19	7.9	0.2	1.0	5.0	21%	4.8%	215,982
	SFL	Ship Finance Int'l Ltd	14.12	19.13	12.4	4.2	1.1	14.6	114%	11.6%	1,317
	SSE	Seventy Seven Energy	5.41	13.85	15.5	0.1	1.1	5.2	410%	0.0%	275
	TDW	Tidewater	32.41	60.62	7.9	1.1	0.6	7.4	61%	3.1%	1,612
	TOT	Total SA	51.20	78.93	9.8	0.6	1.2	4.9	30%	5.0%	122,090
Food & Staples Retailing	WMT	Wal-Mart Stores	85.88	96.62	17.0	0.6	4.6	9.3	74%	2.2%	276,808
Health Care Equip/Srvcs	BAX	Baxter Int'l	73.29	94.61	14.5	2.4	18.0	13.5	369%	2.8%	39,722
Materials	ABX	Barrick Gold	10.75	20.08	9.4	1.2	1.7	nmf	174%	1.9%	12,520
	AUY	Yamana Gold	4.02	8.05	42.6	2.4	0.6	10.6	18%	1.5%	3,541
	BHP	BHP Billiton Ltd	47.32	69.02	9.4	1.1	2.0	5.2	41%	5.2%	121,660
	FCX	Freeport-McMoRan	23.36	44.78	9.2	1.1	1.2	5.4	103%	5.4%	24,271
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	104.57	118.43	17.6	3.9	10.2	11.0	47%	2.7%	292,703
	PFE	Pfizer	31.15	38.75	13.7	3.9	nmf	10.1	nmf	3.6%	196,265
	SNY	Sanofi	45.61	60.73	14.6	6.1	nmf	11.0	nmf	3.5%	121,047
Real Estate	ANH	Anworth Mortgage Asset	5.25	6.38	13.8	nmf	0.8	nmf	nmf	10.7%	595
	BMR	BioMed Realty Trust	21.54	28.32	nmf	nmf	1.4	nmf	nmf	4.8%	4,253
Software & Services	ATVI	Activision Blizzard	20.15	27.84	21.2	3.3	nmf	11.3	nmf	1.0%	14,488
	IBM	Int'l Business Machines	160.44	231.96	9.6	1.6	nmf	8.4	nmf	2.7%	158,781
	MSFT	Microsoft	46.45	53.83	17.3	4.2	6.0	9.7	33%	2.7%	382,881
Technology Hardware	AVX	AVX	14.00	19.78	15.1	1.7	1.3	6.3	0%	3.0%	2,351
	ERIC	LM Ericsson	12.10	17.83	15.6	1.1	2.0	9.0	24%	2.5%	39,784
	JBL	Jabil Circuit	21.83	33.91	72.8	0.3	2.6	7.3	103%	1.5%	4,218
Telecom Services	NTT	Nippon Telegraph	25.61	40.73	10.6	0.5	0.7	4.2	59%	3.1%	58,222
Transportation	NM	Navios Maritime Holdings	4.11	8.20	nmf	0.8	0.5	nmf	178%	5.8%	429

As of 12.31.14. 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]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 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 we already have sufficient energy sector exposure as well as sizable ownership of **Activision** and **Caterpillar** in our four newsletter portfolios, this month we will continue to deploy the limited cash still available. We will buy $6,000 of **Johnson & Johnson** and **Trinity Industries** in Buckingham Portfolio while we will pick up $20,000 of **Canadian Imperial Bank** in PruFolio. In TPS Portfolio, we will bring the holdings of **Ericsson** up to $29,000, while in Millennium Portfolio, we will boost the stake in **Yamana Gold** to $10,000. We will transact on January 9.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ATVI	Activision Blizzard	Information Technology	20.15	27.84
AUY	Yamana Gold	Materials	4.02	8.05
CAT	Caterpillar	Industrials	91.53	113.90
CM	Canadian Imperial Bank	Financials	85.95	101.20
ERIC	LM Ericsson	Information Technology	12.10	17.83
HAL	Halliburton Co	Energy	39.33	68.15
JNJ	Johnson & Johnson	Health Care	104.57	118.43
SFL	Ship Finance Int'l Ltd	Energy	14.12	19.13
TOT	Total SA	Energy	51.20	78.93
TRN	Trinity Industries	Industrials	28.01	52.35

As of 12.31.14. SOURCE: Al Frank using data from Bloomberg

Activision Blizzard (ATVI)

Activision Blizzard is one of the largest developers, publishers and distributors of video games for consoles, PCs and handheld devices. The company sells its games globally and owns popular franchises such as *Call of Duty*, *World of Warcraft*, *Diablo III* and *StarCraft*, all of which should continue to benefit from the rapidly growing popularity of online multiplayer gaming. Many of the company's games generate such a strong following that multiple expansion packs and sequels are released. And Q3 saw the biggest new videogame franchise launch of all time, with the debut of *Destiny*. We appreciate that management has been working hard to keep costs under control and is pushing growth initiatives, such as the launch of *Call of Duty* in the Chinese market. In addition, the company has a forward P/E of 15 and a yield of 1%.

Yamana Gold (AUY)

Yamana is a gold producer, developer and explorer with assets in Central and South America. Despite the plunge in gold prices since early 2013, the company has maintained a focus on reliability, which includes the growth and protection of reserves, resources and production inputs. Although AUY is heavily invested in the precious yellow (the firm reported production of 391,000 gold equivalent ounces for Q3 2014), it's also a copper and silver miner. Through reductions in administrative and exploration costs, AUY has further lowered its gold all-in sustaining cash cost to $807 per ounce. We are not banking on a grand resurgence in gold prices anytime soon, but we like that management is taking steps to capitalize on the current depressed environment. Maintaining one of the lowest cash operating costs in the industry, while working to maximize margins via cost-cutting and containment, in addition to infill drilling and equipment upgrading in advance of production increases, should help Yamana navigate these trying times. While debt levels have increased over the last few years, only $164 million is due through 2018. Liking a gold miner as a hedge, we note that AUY is off more than 50% in the last year, while the price of gold is virtually unchanged.

Caterpillar (CAT)

Caterpillar is a global powerhouse in mining, construction and power systems equipment. CAT has a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. CAT's extensive dealer network and reputation for quality products provide key competitive advantages over rivals. While near-term operating headwinds are brisk due to weaknesses in numerous commodities, management remains focused on operating efficiencies, business plan execution and aftermarket sales and services. We see long-term benefits from the continued migration of production to lower-cost regions and we continue to like the potential of the Power Systems business. We remain long-term fans of CAT and its solid free cash flow generation, which supports capital allocation strategies that start with maintaining its 'A' credit rating, followed by investing in growth, steadily boosting the dividend, repurchasing shares and funding the long-term pension plan. CAT shares are trading at 14 times consensus earnings estimates and offer a 3.1% dividend yield.

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. The retail market segment provides a full range of banking services and products to retail and small business customers. While the firm reported some relative softness in its capital markets business for fiscal Q4, we were pleased to see the continued progress and strength of its Private Banking and Wealth Management business. Management also announced that it would be looking to acquire asset managers in the "highly fragmented" U.S. market. While expenses were up in the most recent quarter, the company is working to enforce cost control management and the Canadian government has kept the banking segment attractive by maintaining barriers to entry, which help protect attractive returns for CIBC and its big competitors. CM shares are off more than 10% since early December and are trading for less than 11 times forward earnings estimates, while yielding more than 4%.

LM Ericsson (ERIC)

LM Ericsson, a Swedish company, is a leading international supplier of network equipment and related services to telecom operators for the handling and transmission of voice and data. Although the space is competitive, we believe Ericsson is in a solid position to take advantage of the growth in the smartphone market. We think ERIC has differentiated itself by focusing on network performance and the overall quality of its networks. Although wireless operator capital expenditures on equipment are often lumpy given the uncertain timing of network project updates, we believe that ERIC's service business should steadily grow, which should provide a catalyst for more equipment sales. In our view, given its expertise, there is reason to believe that ERIC will earn a sizeable chunk of the hardware upgrade spending, which will help expand operating margins that are still below the 5-year average. The ongoing concerns about compressed margins are largely offset, we think, by Ericsson's solid balance sheet, strong cash flows and attractive 2.5% net dividend yield.

Halliburton Co (HAL)

Halliburton is one of the world's largest providers of products and services to the energy industry. The company serves the upstream oil and gas industry throughout the life cycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion, and optimizing production through the life of the field. Like others in the industry, HAL shares have been hit hard by the recent dive in oil prices. While we believe we are much closer to an oil bottom than not, the near-term outlook for the oilfield services industry is murky at best. However, we still think that long-term exposure to the energy industry will prove quite profitable, especially when shares of a best-of-breed company like HAL can be purchased at a steep discount. Though we would have rather a lower price offered, we are also optimistic about the long-term benefits of the proposed acquisition of rival Baker Hughes as it should fill gaps in Halliburton's current business lineup, add greater international scale, support pricing and offer numerous revenue and cost synergies. HAL trades for less than 12 times the current 2015 consensus earnings estimate, while the dividend yield is up to 1.8%.

Johnson & Johnson (JNJ)

Johnson & Johnson is a leading global health care company that develops, manufactures and markets a diversified portfolio of pharmaceutical, medical device, diagnostic and consumer health products. We like that JNJ maintains a broad revenue stream and a robust research pipeline. The most recently reported quarter (Q3) saw the company beat top- and bottom-line expectations, with revenue of $18.5 billion and EPS of $1.50. Consensus analyst EPS estimates came in at $1.44 for the period. JNJ seemingly faces relatively few major patent losses over the next few years and the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power. Further, we see long-term attractive potential for the company's orthopedics business as positive market demographics continue to build, as well as opportunistic expansion in emerging markets. JNJ has a strong balance sheet and we view positively the number of compounds it currently has in later-phase clinical trials along with recent product line extensions. The dividend yield for this high-quality name is 2.7%.

Ship Finance Int'l Ltd (SFL)

Ship Finance primarily engages in the transportation of crude oil and oil products, dry bulk and containerized cargos, and in offshore drilling and related activities. SFL has a fleet of 70 vessels, including 19 crude oil tankers (VLCC and Suezmax), two chemical tankers, 14 drybulk carriers, 22 container vessels, two car carriers, six offshore supply vessels, two jack-up drilling rigs, two ultra-deepwater semi-submersible drilling rigs and one ultra-deepwater drillship. While near-term difficulties persist in the oil tanker and energy markets, we like that SFL continues to diversify and expand its fleet, moving more heavily into dry bulk, container transportation and drilling. Longer term, we believe that the demand for global energy infrastructure will benefit the company, despite the lower commodity prices. We are also encouraged by SFL's $4.6 billion of contracted fixed-rate revenue backlog and are pleased that a large percentage of the fleet is under long-term charter, including the 14 ships delivered in the first three quarters of 2014. Ship Finance shares currently offer investors a juicy 11.6% yield.

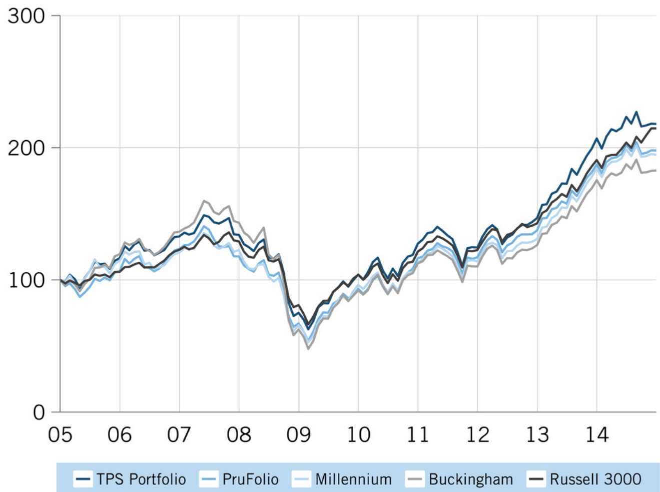
Total SA (TOT)

Total is one of the world's largest integrated oil and gas companies. Its global businesses cover three segments: Upstream E&P, Downstream Refining and Marketing, and Chemicals. Despite the pounding global energy prices have taken in recent months, we view TOT as attractive due to its low cost structure and solid balance sheet. While the geopolitical unrest in certain parts of Africa is likely to have a negative impact on production, the French oil giant expects other existing projects to pick up the slack and drive long-term growth. Though one might expect the plunge in crude prices to lead to a near-term cut in exploration activities, management has maintained an aggressive stance in the past as it focuses on longer-term production growth. Having tumbled over 25% from the high last year, the valuation of TOT is compelling as the stock trades for less than 12 times forward earnings estimates and offers investors a 5% net dividend yield.

Trinity Industries (TRN)

Trinity is a diversified industrial company that owns market-leading businesses providing products and services to the transportation, chemical, energy and construction sectors. TRN has five principal business segments: the Rail Group, Railcar Leasing and Management Services Group, Inland Barge Group, Construction Products Group and the Energy Equipment Group. Shares have been almost cut in half since September as investor concerns over the sharp drop in energy prices and a lawsuit against its highway guardrail product took its toll. While there are definitely obstacles to overcome, we believe the selloff is overdone as TRN currently sits with its largest backlog of railcar orders in its history ($6.1 billion at the end of Q3). Prolonged low oil prices would impact its railcar business, but we believe that TRN customers are taking a longer-term view toward shipping crude, while new regulations on oil transportation could drive demand as customers have to replace or retrofit older units. Additionally, we are pleased to see industry statistics showing strength in usage and increasing demand for a number of styles of freight cars, as overall U.S. rail shipping activity is high. TRN shares are currently trading with an attractive forward earnings multiple of less than 7, which we think more than discounts any potential litigation damages the company eventually may be forced to pay.

NEWSLETTER PORTFOLIO PERFORMANCE



	Dec	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	0.15	4.13	4.13	18.39	14.70	6.21
Millennium	-0.32	5.65	5.65	19.50	15.13	6.88
PruFolio	-0.02	5.65	5.65	19.15	16.25	7.06
TPS	-0.05	5.35	5.35	20.59	15.96	8.11
Major Indexes						
Russell 3000	-0.00	12.55	12.55	20.51	15.63	7.93
S&P 500	-0.26	13.68	13.68	20.40	15.45	7.67
Dow Jones Industrial Avg	0.12	10.04	10.04	16.29	14.22	7.91

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.79	9.99	Russell 3000
Millennium	12.31.99	9.83	4.82	Russell 3000
PruFolio	12.29.00	14.16	5.74	Russell 3000
TPS	03.10.77	18.48	11.08	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,826 stock recommendations have returned, on average, an annualized 17.36%, not including dividends.

As of 12.31.14. 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 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. 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 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.

IMPORTANT DISCLOSURES

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

AFAM is an Investment Adviser, registered with the SEC, is notice filed in the State of CA and various other states, and serves as editor to The Prudent Speculator and the weekly e-mail updates; (TPS: ISSN 0743-0809). AFAM is sub-adviser to two proprietary mutual funds and serves as manager to separate managed accounts. Many of the securities contained within this newsletter mentioned are analyzed, recommended and transacted in by AFAM and/or its associated persons for client and personal accounts. It is also possible that AFAM and/or its associated persons may take a position in a security that is inconsistent with the recommendations provided in TPS or may purchase securities not mentioned in TPS without notice to its subscribers.

Past specific recommendations: Investment recommendations provided herein are subject to change at any time. Past and current recommendations that are profitable are not indicative of future results, which may in fact result in a loss. See prudentspeculator.com or contact AFAM at tps@alfrank.com for a list of all past specific investment recommendations. Performance and characteristics of AFAM portfolios and securities are subject to risks and uncertainties. The stocks selected for listing and discussion in the newsletter were based on proprietary analytical work performed by AFAM, and not based on performance, meaning that they are chosen irrespective of profits or losses. The securities presented do not represent all of the securities bought, sold or recommended.

Privacy: TPS periodically rents its mailing list to unaffiliated third-parties. Telephone marketing is prohibited. Subscribers who wish to have their names removed from the mailing list should contact TPS by e-mailing tps@alfrank.com.

Subscriptions: TPS is published monthly, with weekly e-mail updates, at the following rates: 1-year: $295; 2-years: $495. Subscriptions are not assignable. For subscribing, please contact us at tps@alfrank.com or call 877.817.4394.

The Prudent Speculator is published by Forbes