April 2, 2015

the Prudent Speculator

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While U.S. stocks ended the quarter on a sour note, with the major market averages pulling back from record highs set in early-March, we cannot be too unhappy with the slightly positive average equity returns posted by our newsletter portfolios for the first three months of 2015. After all, the plunge in commodity prices and the strength of the U.S. dollar damaged top- and bottom lines in Q4, which convinced executive teams to rein in forward guidance and compelled analysts to slash their profit forecasts. Standard & Poor's, by way of example, has cut its outlook for bottom-up operating earnings per share in 2015 to $118.54 today from $130.99 at the end of December.

"The only certainty is that nothing is certain."
—Pliny the Elder

Throw in the slowdown in China, the Greek debt drama, the crisis in Ukraine, the currency market tumult following the Swiss National Bank's removal of the cap on the franc-euro exchange rate, the age of the Bull Market and elevated P/E ratios, and it would not have been a surprise to see red ink in the quarter. This is especially true after the S&P 500 fell by 3% in the first month, turning the January Barometer negative, the original-AFL New England Patriots were victorious, leaving the Super Bowl Indicator flashing red, and the calendar rolled over to the Year of the Sheep/Goat/Ram, the worst performing of the 12 years of the Chinese zodiac. And we haven't even mentioned the concerns about the inevitable increase ("lift-off") in the Fed Funds rate from the Federal Reserve.

We do not mean to suggest that we are pleased with our Q1 numbers, given that the Russell 3000 index returned 1.8% while the S&P 500 managed a 1.0% advance, but we had to endure another three months where Value stocks significantly underperformed Growth. In fact, the multi-capitalization Russell 3000 Value index actually ended down for the period by -0.5%, while the Russell 3000 Growth index jumped by 4.0%. It was a similar story for the large-cap Russell 1000 as the Value component declined by -0.7% versus a 3.8% increase for Growth. While our sector allocations more closely mirror the Russell 3000 index, so we think it an appropriate benchmark, our holdings fall decidedly into the Value category.

Certainly, we understand that stocks are always susceptible to a sizable setback, as data going back to the 1920s show that corrections of 10% or more happen every 10 months on average, while Bear Market losses of 20%+ occur every 3.2 years, with the last big plunge (18.6% on the S&P 500) taking place April-October 2011. And we are concerned about the near-term health of corporate profits as recent U.S. economic data has been mixed, with the latest CNBC Rapid Update of consensus projections for Q1 GDP growth dropping to 1.4% on weak February consumer spending.

No doubt, we are braced for heightened volatility, but we know quite well that the key to making money in stocks is not to get scared out of them. Further, the markets have always faced numerous headwinds, yet equities have turned in excellent long-term performance, with Dividend Paying/Value stocks, like those that dominate our portfolios, enjoying annualized returns of 10.4%/13.5%, per data from Professors Fama and French.

More importantly, perhaps, we think equities are supported today by not-too-hot, not-too-cold domestic economic numbers, accommodative global central bankers, investor sentiment that is far from ebullient and healthy balance sheets that are facilitating record stock buybacks and dividend payouts. Also, we believe that valuations are reasonable and dividend yields are attractive on many stocks, especially given that the yield on the 10-year U.S. Treasury equals that of the Russell 3000 index. Finally, while we further address the subject in this month's *Graphic Detail*, we think it important to note the comments of Stanley Fischer, as the Federal Reserve Vice-Chair recently said, "When we raise the interest rate, we will be moving from an ultra-expansionary monetary policy to an extremely expansionary monetary policy."

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

Fed Liftoff

Stock prices managed to survive and thrive despite the May 2013 *Taper Tantrum*, when then-Chairman Ben Bernanke suggested that the Federal Reserve would soon start to reduce its massive bond buying program. QE3, as the quantitative easing stimulus is known, then encompassed purchasing additional agency mortgage-backed securities (MBS) at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. Likewise, the major equity market averages are nicely higher today even though the Fed did slowly trim QE3 from $85 billion per month in December 2013 all the way down to where it currently just reinvests MBS principal payments and rolls over maturing Treasuries.

Alas, many equity market participants missed out on those gains as fear of the Fed and potentially higher interest rates (ironically, rates are lower today than in December 2013) kept plenty of money sitting on the sidelines. And those investors are unlikely to be feeling better about stocks these days, given that current Fed Chair Janet Yellen said last week, "With continued improvement in economic conditions, an increase in the target range for that [Fed Funds] rate may well be warranted later this year."

Not surprisingly, the financial press and even the mainstream media have again been busy sounding warning bells, with *Time Magazine* suggesting in its March 19 edition, "The Fed has initiated a tightening cycle 16 times since the end of World War II. In 13 instances, the market fell in the six months leading up to the rate increase." Sounds ominous, especially as numbers from the reputable data provider S&P Capital IQ are cited, until

FED TIGHTENING—3 MONTHS PRIOR

Contrary to what some might think, equities have performed nicely in the 3- and 6-month periods leading up to the first Fed rate hike...

Starting Date	Pre-Hike Effective Fed Funds Rate	Value Stocks	Growth Stocks	Div Payers	Non-Div Payers	Large Stocks	Small Stocks
Dec 1954	1.3%	25.4%	13.7%	15.4%	23.7%	13.0%	20.6%
Aug 1958	1.5%	14.4%	10.2%	10.4%	16.6%	9.3%	13.0%
Aug 1961	2.0%	-1.5%	-0.9%	2.7%	-7.3%	3.0%	-3.9%
Nov 1964	3.5%	4.6%	3.8%	4.2%	5.1%	4.0%	6.3%
Aug 1967	3.9%	16.7%	11.2%	6.4%	20.3%	5.9%	20.9%
Apr 1971	4.2%	10.1%	15.1%	9.1%	16.6%	9.3%	11.7%
Mar 1972	3.8%	10.2%	12.9%	5.3%	15.3%	5.7%	12.9%
Mar 1974	9.4%	10.1%	1.6%	-0.6%	5.2%	-2.8%	11.5%
Feb 1977	4.7%	10.1%	2.8%	1.2%	5.5%	-1.3%	16.4%
Aug 1980	9.6%	11.4%	22.3%	12.5%	29.4%	11.4%	25.5%
Jan 1982	13.2%	2.1%	-3.6%	-0.6%	-8.0%	0.0%	-1.5%
May 1983	8.8%	15.1%	13.8%	12.0%	16.8%	10.9%	23.2%
Apr 1987	6.4%	3.0%	7.7%	5.0%	9.3%	6.0%	7.1%
Apr 1988	6.9%	8.6%	7.6%	3.4%	11.7%	2.6%	14.3%
Feb 1994	3.3%	3.9%	2.7%	2.1%	4.9%	1.8%	8.0%
Jun 1999	4.8%	13.4%	12.4%	7.9%	10.2%	7.0%	20.2%
Jun 2004	1.0%	0.9%	1.4%	1.8%	0.5%	1.7%	0.1%
Averages:	**5.2%**	**9.3%**	**7.9%**	**5.8%**	**10.3%**	**5.2%**	**12.1%**

Three months ending in month when tightening began. SOURCE: Al Frank Using Data from Professors Eugene F. Fama and Kenneth R. French, Bloomberg, St. Louis Fed, Deutsche Bank and Morningstar

FED TIGHTENING—6-MONTHS PRIOR

...which makes a lot of sense, given that the Fed is likely raising rates to tamp the brakes on a robust economy.

Starting Date	Pre-Hike Effective Fed Funds Rate	Value Stocks	Growth Stocks	Div Payers	Non-Div Payers	Large Stocks	Small Stocks
Dec 1954	1.3%	40.0%	23.2%	26.4%	38.4%	26.3%	35.9%
Aug 1958	1.5%	28.6%	23.7%	21.4%	31.7%	19.2%	27.5%
Aug 1961	2.0%	9.0%	7.6%	9.0%	1.8%	8.9%	7.8%
Nov 1964	3.5%	8.1%	5.7%	7.8%	3.0%	6.7%	12.0%
Aug 1967	3.9%	23.7%	19.5%	10.7%	32.3%	9.6%	30.7%
Apr 1971	4.2%	34.8%	35.6%	28.2%	39.0%	26.9%	40.8%
Mar 1972	3.8%	12.4%	18.2%	10.1%	17.2%	10.7%	14.5%
Mar 1974	9.4%	-2.2%	-18.9%	-10.7%	-16.5%	-11.7%	-9.8%
Feb 1977	4.7%	13.1%	4.5%	2.9%	4.9%	-1.0%	19.8%
Aug 1980	9.6%	7.5%	17.7%	11.6%	16.0%	10.6%	18.6%
Jan 1982	13.2%	0.2%	-11.5%	-5.9%	-17.8%	-5.6%	-8.6%
May 1983	8.8%	28.6%	27.2%	21.5%	34.8%	19.8%	42.1%
Apr 1987	6.4%	11.5%	19.7%	17.1%	21.5%	20.1%	13.8%
Apr 1988	6.9%	16.4%	10.6%	7.4%	14.0%	5.5%	21.9%
Feb 1994	3.3%	4.6%	5.7%	1.8%	8.8%	2.1%	14.6%
Jun 1999	4.8%	6.3%	12.6%	8.4%	21.1%	12.4%	10.7%
Jun 2004	1.0%	6.3%	4.6%	3.9%	3.6%	3.4%	6.6%
Averages:	**5.2%**	**14.6%**	**12.1%**	**10.1%**	**14.9%**	**9.6%**	**17.6%**

Six months ending in month when tightening began. SOURCE: Al Frank Using Data from Professors Eugene F. Fama and Kenneth R. French, Bloomberg, St. Louis Fed, Deutsche Bank and Morningstar

FED TIGHTENING—12-MONTHS AFTER

Despite the headwind of higher interest rates, stocks have managed to post solid returns one-year after the tightening cycles have begun.

Starting Date	Pre-Hike Effective Fed Funds Rate	Value Stocks	Growth Stocks	Div Payers	Non-Div Payers	Large Stocks	Small Stocks
Dec 1954	1.3%	26.8%	20.9%	26.0%	18.6%	31.6%	20.4%
Aug 1958	1.5%	44.6%	35.6%	31.0%	33.5%	28.9%	33.6%
Aug 1961	2.0%	-8.7%	-15.6%	-9.6%	-22.6%	-10.3%	-6.8%
Nov 1964	3.5%	24.2%	22.6%	12.0%	35.6%	11.9%	32.0%
Aug 1967	3.9%	26.3%	20.5%	10.3%	22.6%	9.0%	34.1%
Apr 1971	4.2%	6.0%	15.3%	6.5%	3.1%	6.8%	3.0%
Mar 1972	3.8%	-5.7%	-16.2%	3.0%	-28.9%	7.0%	-20.3%
Mar 1974	9.4%	0.4%	-9.3%	-5.0%	-13.5%	-7.0%	0.1%
Feb 1977	4.7%	9.0%	1.9%	-4.5%	13.3%	-8.3%	22.3%
Aug 1980	9.6%	15.4%	6.8%	7.9%	9.2%	5.3%	27.5%
Jan 1982	13.2%	41.8%	32.7%	29.2%	32.7%	27.7%	38.8%
May 1983	8.8%	5.2%	-20.4%	-5.9%	-27.5%	-3.1%	-11.0%
Apr 1987	6.4%	-1.6%	-12.7%	-5.2%	-15.3%	-6.4%	-6.6%
Apr 1988	6.9%	25.6%	17.2%	22.2%	17.2%	22.8%	13.7%
Feb 1994	3.3%	2.2%	1.5%	6.7%	1.7%	7.4%	2.6%
Jun 1999	4.8%	1.7%	27.4%	-4.8%	39.8%	7.2%	29.8%
Jun 2004	1.0%	19.2%	2.2%	7.9%	5.5%	6.3%	8.0%
Averages:	**5.2%**	**13.7%**	**7.7%**	**7.5%**	**7.4%**	**8.1%**	**13.0%**

Twelve months starting at the end of the month when tightening began. SOURCE: Al Frank Using Data from Professors Eugene F. Fama and Kenneth R. French, Bloomberg, St. Louis Fed, Deutsche Bank and Morningstar one takes a look at what has actually occurred for the full time-spans before and after the Fed has begun to tighten.

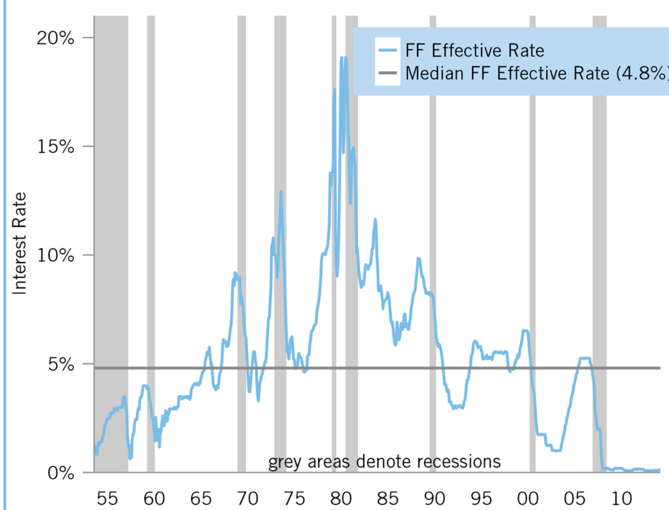
We do not mean to infer that equities would rather rates were rising (even as the stronger economic growth necessary to compel the Fed to move today is hardly a negative backdrop for corporate profits), but the number crunching we've undertaken (and we have run our data by the good folks at S&P) suggests that one should not believe everything that appears in print. Indeed, stocks have actually gained ground for the full six-months prior to the start of Fed tightenings on all but a couple of occasions. Same thing goes for three-months prior (Richmond Fed President Jeffrey Lacker says that there is a "strong case" for hiking in June), as well as 12-months after. No doubt, there has been plenty of volatility surrounding major Fed moves, with sizable short-term losses sometimes suffered by those who can't stomach the fluctuations (which we are told was the gist of the S&P data), but those willing to remain patient have been rewarded more often than not.

Of course, given that the U.S. economy grew by only 2.2% in Q4 2015, with the strong dollar and nasty weather likely to hamper Q1 2015 GDP growth, while the Fed's longer-run goals of maximum employment and inflation of 2% currently are not being met, the timing of the first rate increase is very much in question. Consensus estimates recently have been pushed out to September, but the Fed continuously has stated that any monetary policy moves will be data, not calendar, dependent.

And lest there be fear that rates will soon spike sharply, Ms. Yellen said last week, "The average pace of tightening observed during previous recoveries could well provide a highly misleading guide to the actual course of monetary policy over the next few years." Also easing worries, the Fed has been very clear that economic conditions may, for some time, warrant keeping the Fed Funds rate below levels it views as normal in the longer run.

FED FUNDS RATE

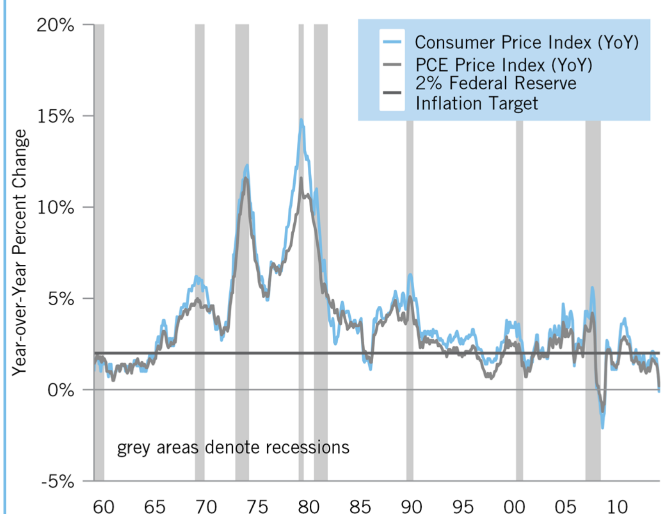
We wouldn't worry about the likelihood of a few upticks in the Fed Funds rate, given the current extraordinarily low level nere zero.



From 07.31.54 through 02.28.15. Federal funds effective rate. SOURCE: Al Frank using data from Bloomberg

INFLATION

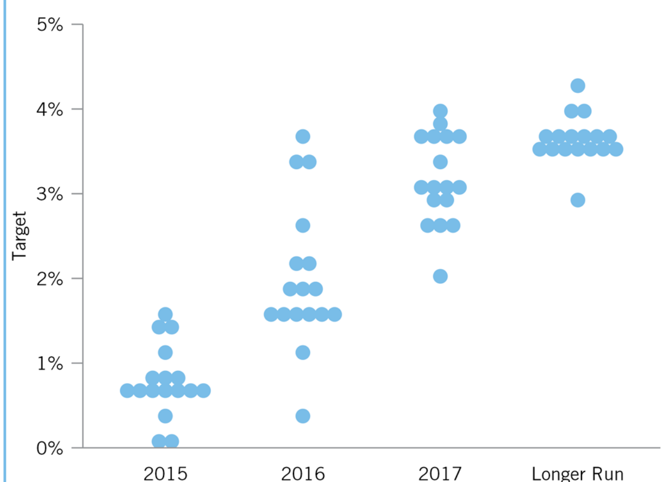
With little in the way of pricing pressure, the Fed can be deliberate in its approach to removing policy accommodation.



From 01.31.60 through 02.28.15. SOURCE: Al Frank using data from Bloomberg

FED FUNDS RATE TARGETS

In March, Federal Reserve Board Members and Bank Presidents actually lowered their longer-run forecasts for the Fed Funds rate.



As of March 2015. Each dot represents a target range projection for the Federal Funds rate from one of the 17 FOMC participants. SOURCE: Federal Reserve

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]	Debt/ TE[4]	Div Yld	Mkt Cap
Autos & Components	GT	Goodyear Tire & Rubber Co	26.82	43.95	9.6	0.4	2.5	5.7	217%	0.9%	7,305
Banks	CM	Canadian Imperial Bank	72.50	96.20	8.1	nmf	1.8	nmf	nmf	5.9%	28,796
	HSBC	HSBC Holdings PLC	42.59	58.15	10.4	nmf	1.0	nmf	nmf	5.9%	164,191
	ONB	Old National Bancorp	14.19	20.89	13.5	nmf	1.9	nmf	nmf	3.4%	1,670
Capital Goods	CAT	Caterpillar	80.03	106.64	12.6	0.9	7.0	6.2	398%	3.5%	48,512
	ETN	Eaton PLC	67.94	85.63	14.5	1.4	nmf	14.3	nmf	3.2%	31,763
	FLR	Fluor	57.16	80.76	12.7	0.4	2.8	5.1	33%	1.5%	8,448
	GE	General Electric Co	24.81	33.84	14.9	1.7	6.7	11.4	535%	3.7%	249,775
Consumer Dur & App	MDC	MDC Holdings	28.50	42.97	17.9	0.8	1.1	19.3	74%	3.5%	1,392
Energy	APA	Apache	60.44	103.41	10.2	1.7	0.9	5.0	44%	1.7%	22,734
	ESV	Ensco PLC	21.07	38.87	3.3	1.0	0.6	nmf	75%	2.8%	4,934
	HFC	HollyFrontier	40.27	54.09	14.5	0.4	2.6	9.7	35%	3.2%	7,860
	PGN	Paragon Offshore PLC	1.30	4.68	0.3	0.1	0.2	nmf	384%	0.0%	111
	RDS/A	Royal Dutch Shell PLC	59.76	84.60	7.8	0.2	1.1	4.6	23%	5.4%	192,584
	SFL	Ship Finance Int'l Ltd	14.45	19.91	11.1	4.2	1.2	13.3	134%	11.4%	1,380
	TDW	Tidewater	19.38	48.70	4.7	0.6	0.4	13.5	68%	5.2%	897
	TOT	TOTAL SA	49.76	75.39	10.9	0.7	1.2	5.9	42%	4.7%	118,452
Food & Staples Retailing	WMT	Wal-Mart Stores	82.76	95.84	16.2	0.5	4.2	8.6	69%	2.4%	265,107
Food Bev & Tobacco	UVV	Universal	46.94	65.13	14.2	0.5	1.0	9.1	23%	4.4%	1,067
Health Care Equip/Srvcs	BAX	Baxter Int'l	68.50	95.07	13.3	2.2	17.2	11.4	351%	3.0%	37,232
Insurance	PRU	Prudential Financial	80.31	110.15	8.7	nmf	1.0	nmf	nmf	2.9%	36,475
Materials	ABX	Barrick Gold	11.06	21.33	16.3	1.3	2.3	nmf	231%	1.8%	12,881
	AUY	Yamana Gold	3.71	7.79	113.5	2.3	0.7	nmf	32%	1.7%	3,379
	BHP	BHP Billiton Ltd	46.47	67.16	11.8	1.3	2.2	5.3	41%	5.3%	120,792
	CE	Celanese	55.86	87.27	9.8	1.3	4.5	10.3	135%	1.8%	8,691
	FCX	Freeport-McMoRan	18.95	37.36	9.7	0.9	1.1	10.9	103%	1.1%	19,705
	MOS	Mosaic Co	46.06	69.88	17.4	1.9	1.9	9.1	42%	2.2%	16,851
Pharma/Biotech/Life Sci	• GILD	Gilead Sciences	98.13	138.99	12.6	5.8	45.8	9.0	375%	1.8%	145,533
	JNJ	Johnson & Johnson	100.60	116.07	16.9	3.8	13.5	10.7	73%	2.8%	279,724
	SNY	Sanofi	49.24	65.73	17.7	7.1	51.0	10.0	558%	2.7%	130,459
Real Estate	ANH	Anworth Mortgage Asset	5.12	6.43	11.3	nmf	0.8	nmf	nmf	11.8%	541
	BMR	BioMed Realty Trust	22.66	28.95	23.1	nmf	1.5	nmf	nmf	4.6%	4,616
Semis & Cap Equipment	INTC	Intel	31.27	39.34	13.3	2.7	3.6	5.9	29%	3.1%	148,095
Software & Services	IBM	Int'l Business Machines	160.50	223.41	9.8	1.7	nmf	8.8	nmf	2.7%	158,642
	MSFT	Microsoft	40.66	52.09	15.2	3.6	5.3	8.2	33%	3.1%	333,525
Technology Hardware	AVX	AVX	14.34	20.10	14.7	1.7	1.3	6.2	0%	2.9%	2,402
	CSCO	Cisco Systems	27.53	34.88	14.9	2.9	4.6	8.6	67%	3.1%	140,508
	QCOM	Qualcomm	69.34	92.33	14.4	4.2	3.6	8.9	0%	2.8%	114,380
Telecom Services	T	AT&T	32.73	39.04	13.0	1.3	nmf	8.1	nmf	5.8%	169,459
Transportation	NM	Navios Maritime Holdings	4.18	7.04	nmf	0.8	0.5	nmf	177%	5.7%	436

As of 03.31.15. 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

Looking to deploy a portion of the cash residing in two of our newsletter portfolios, we will pick up $20,000 of **Gilead Sciences** in PruFolio and bring the ownership of **Mosaic** and **Sanofi** up to that level. In Buckingham Portfolio, we will buy $6,000 of **Qualcomm** and raise the holdings to that amount in **Anworth Mortgage** and **HollyFrontier**. We already hold sufficient positions in **Cisco Systems**, **Eaton Corp**, **Microsoft** and **Prudential Financial**, so no additional purchases are required. As usual, we will wait four trading days until April 9 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ANH	Anworth Mortgage Asset	Financials	5.09	6.43
CSCO	Cisco Systems	Information Technology	27.53	34.88
ETN	Eaton PLC	Industrials	67.94	85.63
GILD	Gilead Sciences	Health Care	98.13	138.99
HFC	HollyFrontier	Energy	40.27	54.09
MOS	Mosaic Co	Materials	46.06	69.88
MSFT	Microsoft	Information Technology	40.66	52.09
PRU	Prudential Financial	Financials	80.31	110.15
QCOM	Qualcomm	Information Technology	69.34	92.33
SNY	Sanofi	Health Care	49.44	65.73

As of 03.31.15. SOURCE: Al Frank using data from Bloomberg

Anworth Mortgage Asset (ANH)

Anworth is a mortgage REIT focused primarily on U.S. mortgage-backed securities (MBS) issued or guaranteed by an agency of the U.S. (Ginnie Mae) or a U.S. government-sponsored entity (Fannie Mae or Freddie Mac). While the core business produced solid adjusted Q4 results, we appreciate management's continued efforts to plan for the long-term success of the firm via the ownership of 79 single-family residential rental properties (with 89% currently rented). This newer segment is set to methodically expand, and in the years to come, ANH may need to have less agency MBS focus for it to be as successful as desired. We are buoyed by continued share buybacks, another recent increase to the dividend, net interest spread expansion and book value growth. While rising rates could eventually pressure shares, we are encouraged that Anworth's portfolio is largely made up of adjustable-rate mortgages. ANH shares currently trade at 79% of book value and yield above 11%.

Cisco Systems (CSCO)

Data networking giant Cisco has worked hard over the last few years to overcome a difficult economic backdrop in many regions, an effort we believe helped substantially by management's decision to trim some fat and focus on its core strengths. Its global reach and superior product range gives it the opportunity to cross-sell products and push upgrades. In CSCO's 100th quarterly conference call, CEO John Chambers said, "We have the innovation, operational excellence, speed, agility and efficiencies in our business to drive the greatest possible benefit for our customers, our partners and our shareholders." Margin compression continues to be a long-term concern, as the SDN (Software Defined Network) push could put pricing pressure on other parts of the network business; however we believe that cloud growth will more than offset any adverse effects. Happily, 85% of Fortune 500 companies use Cisco's cloud services. We think that CSCO shares still trade at a discount with over $6.50 in net cash per share, a forward P/E ratio of 12.3 and a 3% dividend yield.

Eaton PLC (ETN)

Eaton is a power management company, providing energy-efficient solutions that help customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably. We like that Eaton's global expansion (half of total sales come from outside the U.S.) has increased its access to rapidly growing emerging markets and their expanding auto markets. We also like that its diversification combines businesses that tend to perform well during different stages of the economic cycle, while steady aftermarket sales provide a more stable income stream. While currency challenges and near-term operating headwinds remain, we believe that cost-cutting initiatives, along with the company's operating leverage and proven ability to develop attractive new technologies, should provide a material stimulus to long-term profits. ETN's improving free cash flow generation will also give management flexibility to invest in the business, strengthen the balance sheet and return capital to shareholders. ETN shares trade at less than 14 times forward earnings estimates and yield 3.2%.

Gilead Sciences (GILD)

Gilead is a research-based biopharma firm that discovers, develops and commercializes innovative medicines in areas of unmet medical need. Gilead's portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions. Despite recent share volatility due to competition from AbbVie's hepatitis C drug, and its exclusive deal with Express Scripts, we expect GILD's hep C franchise to maintain a dominant market position in this growing space. Many believe GILD's hep C drugs will remain the preferred choice of doctors due to better clinical data and significantly friendlier administration. Additionally, we like Gilead's leading position in treating the HIV virus and the overall direction of its HIV drug franchise. Along with management's work to further expand its drug pipeline and diversify the company, we are constructive on the recently instituted quarterly dividend (the yield is now 1.8%), aggressive $15 billion share repurchase program and attractive valuation. Unlike many biotechs, GILD trades for less than 11 times estimated earnings.

HollyFrontier (HFC)

Holly is one of the largest independent petroleum refiners in the U.S. Through six complex refineries (which process lower-cost heavy sour crude into a higher percentage of fuel), its subsidiaries produce and market gasoline, diesel, jet fuel, asphalt, heavy products and specialty lubricant products. HFC shares have been hit along with the rest of the energy space, and the firm saw its Q4 performance impacted by the narrowing price gap between Brent and West Texas Intermediate crude. However, the Brent/WTI spread has once again widened and management believes the firm is well positioned to reap the benefits, given its geographic location close to inland U.S. crude production, improving reliability and throughput, and limited amounts of planned 2015 maintenance. Holly also owns a 39% stake in and receives meaningful distributions from high-quality logistics MLP, Holly Energy Partners. Though the shares have been volatile, we like the strong competitive position and shareholder-friendly management. Holly had paid hefty special dividends since Q3 2011, but recently decided to dedicate those and other dollars to a new $500 million stock buyback. The yield via the regular dividend is still a generous 3.1%.

Mosaic Co (MOS)

Mosaic is the largest producer of phosphate fertilizers in the world and is one of the leaders in the production of potash, feed ingredients and industrial products. Shares pulled back in March due in part to concerns that low commodity prices and exchange rate differences might adversely affect results for 2015. Saskatchewan, the Canadian province where MOS has substantial operations, didn't help matters when it announced a tax increase on potash production, which the company expects to have a full-year cost between $80 million and $100 million. However, MOS and its peers maintain generally favorable outlooks for potash and phosphate demand despite anticipating that some farmers may use less fertilizer this year because of lower grain prices. The sailing will not be smooth, but we believe that Mosaic's low production costs and solid net margins (about 15%) give it considerable opportunity to grow earnings. The company also repurchased $2.8 billion worth of shares last year and paid $400 million in dividends, and recently upped its quarterly payout by 10%, from $0.25 per share to $0.275.

Microsoft (MSFT)

Microsoft is a global leader in the development and sale of computer, mobile device and cloud computing software. MSFT has benefitted from good cloud adoption rates and improvements to the Windows ecosystem, while end-of-life Windows XP challenges have created complications for the company in certain regions. Despite reporting sales and earnings ahead of analyst expectations last quarter, the company offered weaker-than-expected guidance for the balance of fiscal 2015, due primarily to the strong U.S. dollar. Although we think that Microsoft has lagged behind the competition in recent years, especially from a user experience standpoint, we are excited about the upcoming launch of Windows 10. We also have great interest in projects like HoloLens, a device that can be worn like glasses and projects a holographic image on top of the real world. The original idea from 2007 ended up turning into Kinect, a top-selling accessory for Xbox One, illustrating that concept devices have the potential to evolve into successful retail products. Microsoft currently trades for 15 times earnings and yields 3.1%.

Prudential Financial (PRU)

Prudential is one of the largest financial services companies in the U.S., providing insurance, investment management, brokerage services and other financial products. PRU ranks in the top three in terms of variable life assets, individual life in-force premiums and group life sales, earning some of the highest operating returns among traditional franchise life insurers and consistently turning in attractive results from international operations. PRU's exit from its long-term care business has aided the firm in reducing some exposure to interest-rate-sensitive products. The acquisition of Star and Edison Life in 2011 has also led to increasing strength in the international franchise. PRU's solid capital base allows management to return money to investors via buybacks and dividends, as well as to pursue strategic acquisitions. Having sold off more than 10% this year, PRU shares currently trade for less than 9 times estimated forward earnings and offer investors a 2.9% dividend yield.

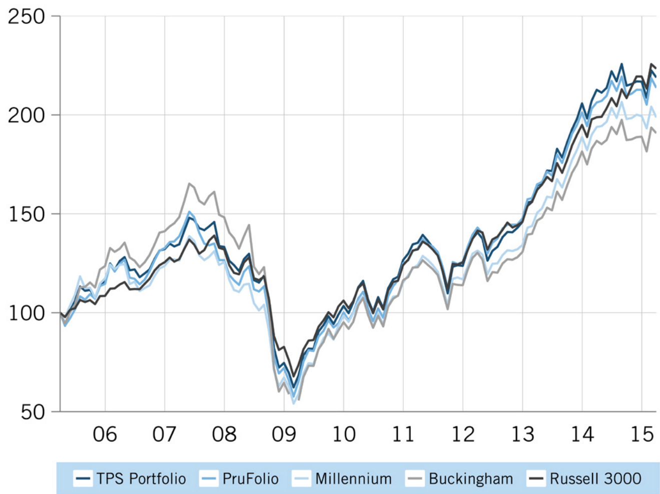
Qualcomm (QCOM)

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 continues to build on its position as a global leader in 3G and 4G cellular data chips, reporting about 1.4 billion devices activated in the past fiscal year, with 15% growth estimated by the company this year. Demand for QCOM products remains strong in most regions, with the exception of China, where it has been battling the Chinese government over intellectual property rights. Alas, we believe that piracy will always present a challenge for businesses, and QCOM in this instance is no exception. However, we think that the superiority of LTE and the speed with which the Chinese telecoms wish to produce and roll out the technology will strongly encourage the parties to settle the disputes and to pay fairly for QCOM's products. Qualcomm recently boosted its quarterly dividend by 14% to $0.48 per share and replaced an existing $2.1 billion buyback authorization with a full $15 billion program. We also like that QCOM has a great balance sheet with no debt and $10 per share in cash.

Sanofi (SNY)

Sanofi is a global integrated health care company focused on seven growth platforms: Diabetes Solutions, Vaccines, Genzyme, Emerging Markets, Consumer Health Care, Animal Health and Other Innovative Products. We like that SNY has a robust and promising pipeline of new pharmaceuticals, including several that address diseases that have no current treatments as well as the recent news that one of its experimental medicines, if approved by the FDA, could potentially revolutionize the heavily used "bad cholesterol" lowering statin market. In limited trials, SNY's new medicine sharply lowered bad cholesterol and reduced the risk of heart attack and strokes (though much more definitive data is needed on the latter two). Sanofi also has a leading diabetes line of medicines, including blockbuster Lantus. While competition is tough, we still believe the opportunity in the diabetes space is substantial because the worldwide population of diagnosed diabetics is likely to show strong growth as global obesity rates continue to climb. We like the firm's footprint within emerging economies and we are fans of its well-diversified business portfolio. SNY shares carry a current net dividend yield of 2.7%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Mar	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	-1.45	0.93	2.09	13.55	12.98	6.67
Millennium	-2.66	-0.37	2.47	14.78	13.53	7.11
PruFolio	-2.25	0.47	3.57	14.31	14.79	7.89
TPS	-1.61	0.96	2.94	15.91	14.18	8.15
Major Indexes						
Russell 3000	-1.02	1.80	12.36	16.44	14.71	8.37
S&P 500	-1.58	0.95	12.72	16.11	14.46	8.01
Dow Jones Industrial Avg	-1.85	0.33	10.57	13.18	13.23	8.17

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.60	9.94	Russell 3000
Millennium	12.31.99	9.64	4.86	Russell 3000
PruFolio	12.29.00	13.93	5.77	Russell 3000
TPS	03.10.77	18.38	11.03	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,831 stock recommendations have returned, on average, an annualized 17.34%, not including dividends.

As of 03.31.15. 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.

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