August 1, 2017

the Prudent Speculator

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Interesting to look at the headlines in *The Wall Street Journal* on Monday. Above the fold, the front page declared, "Stare Down: Russia's Putin Orders U.S. Diplomats to Leave" and "Trump Deepens GOP Divide." Incredibly, the latter story included, "After a week that included the president attacking his attorney general, the collapse of the GOP health bill, a surprise effort to bar transgender people in the military and a White House staff shakeup, divisions that were largely set aside at the start of 2017 have emerged anew." And the saber rattling in North Korea, with the fallout from the rogue nation's latest intercontinental ballistic missile test, was relegated to Page A6.

> "Too bad that all the people who know how to run the country are busy driving taxi cabs and cutting hair."
>
> —George Burns

No doubt, we live in interesting times, as the ongoing drama in Washington and the events on the global stage seemingly have had little impact on the U.S. equity markets, with stocks enjoying another good month in July. The S&P 500 returned 2.06% last month, while the Russell 3000 index tacked on 1.89%, with both broad-based benchmarks closing less than one percent off of their all-time highs. The price-weighted Dow Jones Industrial Average ended July on a five-day winning streak to close at a record level. True, Value strategies lagged, with the Russell 3000 Value index gaining 1.28%, compared to a 2.52% advance for the Russell 3000 Growth index, but given plenty of disconcerting geopolitical developments we suspect that most long-term-oriented investors will not complain too much about what has transpired of late.

Of course, the main reason for the rally was explained below the fold in that same edition of *The Wall Street Journal*: "Earnings Growth Heats Up After Years of Cost Cutting." Indeed, corporate report cards have been very good on the whole. Looking at the S&P 500, where about 60% of the members have announced thus far, Thomson Reuters estimated that overall earnings will rise 11% in Q2, following a 15% increase in Q1, Bloomberg calculated that 71.2% of companies have exceeded analyst projections for EPS in the second quarter and Factset concluded that about 73% have turned in revenue above expectations, which would be a record if it holds for the full reporting season.

Certainly, investor reaction to the individual company numbers has not always been favorable as management teams have struck their usual cautious tone in their outlooks, but corporate profits have nearly always been on an upward trajectory, provided that the economy is not in recession. And a recession does not appear to be on the horizon, given that U.S. GDP growth for Q2 was estimated at 2.6%, consumer confidence/sentiment gauges are within striking distance of highs not seen in more than a decade, first-time claims for unemployment benefits are near the lowest levels ever recorded and the latest read on the health of the factory sector (ISM PMI) came in at 56.3, corresponding to a 4.1% annual increase in real GDP.

Even better, the growth in top- and bottom-lines has been achieved in the face of some stiff headwinds. **JPMorgan Chase** (JPM - $93.03) CEO Jamie Dimon expressed it more colorfully, "Since the Great Recession, which is now 8 years old, we've been growing at 1.5% to 2% percent in spite of stupidity and political gridlock, because the American business sector is powerful and strong."

We are not banking on a significant acceleration of economic growth, nor do we think corporate tax relief will be easily won on Capitol Hill, but we continue to believe that equities in general and our stocks in particular are reasonably priced, especially given the historically low interest-rate environment. We understand that pullbacks, downturns and corrections are a normal part of the investment process, while we know that geopolitical news can trigger a sizable sell-off at any time, but we see no reason to alter our long-term optimism. That doesn't mean that we won't keep a little dry powder for new opportunities that will inevitably arise, but we believe that time in the market always trumps market timing.

Chief Investment Officer
Al Frank Asset Management (AFAM)

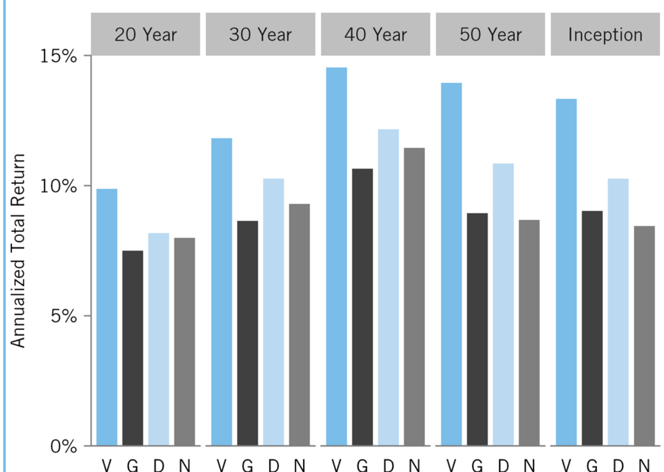
Graphic Detail

Valuation Factors Revisited: Historical Evidence

We might think that folks would naturally gravitate toward inexpensive stocks, given that most seek bargains in their everyday lives, be it at the grocery store, the auto dealership or when shopping online. However, Value strategies, which generally lack "hot" companies with exciting stories, often are a tough sell for many, even as the long-term data show that richly priced stocks do not perform as well as those that trade for more modest valuations. Of course, Growth has enjoyed its occasional times in the sun, including a large part of the last decade.

LT FF RETURNS—BV/PRICE & DIVIDENDS

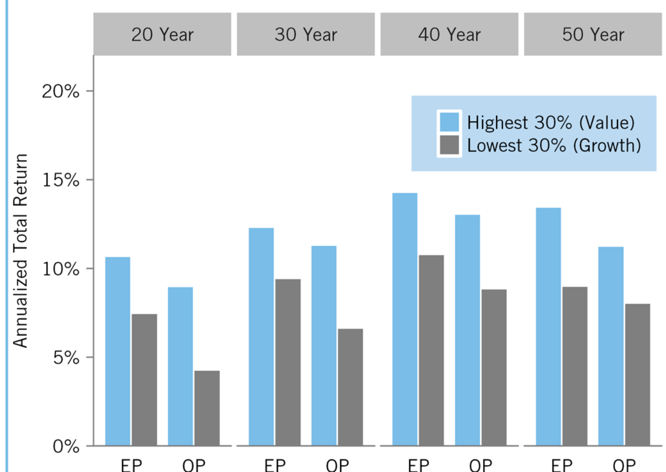
Historical data published by Fama & French (FF) show the merits of Value stocks (high Book Equity to Price) and Dividend Payers...



As of 06.30.17. Value stocks (V) are the highest 30% of Book Equity to Market Equity (BE/ME). Growth stocks (G) are the lowest 30% of Book Equity to Market Equity (BE/ME). Dividend payers (D). Non-Dividend payers (N). SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

LT FF RETURNS—E/P AND OP/BV

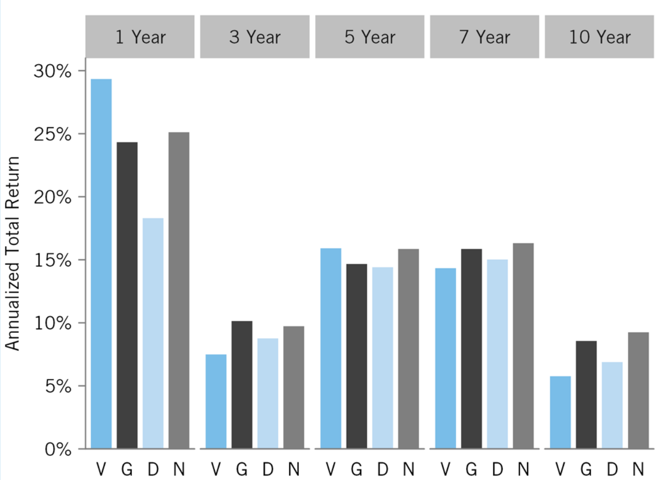
...not to mention those with high Earnings to Price (the inverse of the P/E ratio) and Operating Profit to Book Value metrics.



As of 06.30.17. E/P portfolios are formed on earnings divided by price. OP/BE portfolios are formed on operating profitability divided by book equity. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

ST FF RETURNS—BV/PRICE & DIVIDENDS

The latest 12 months (per FF) saw favorable relative returns for high Book Equity / Price, but Value factors have struggled since 2007,...



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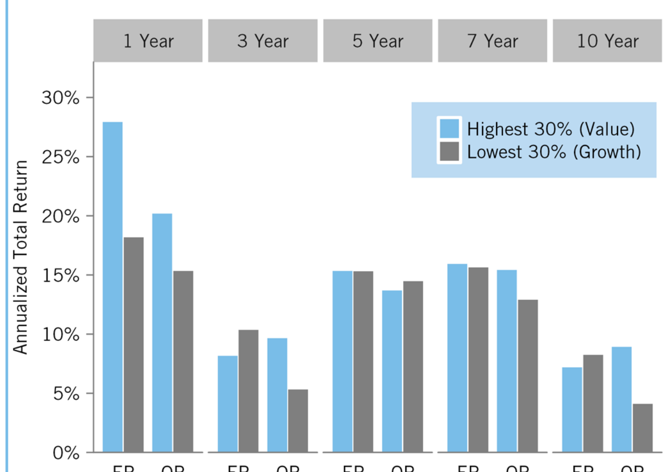
ST FF RETURNS—E/P AND OP/BV

...though the battles have been much closer for the Earnings / Price and OP/BE factors, with several victories for the latter.



As of 06.30.17. E/P portfolios are formed on earnings divided by price. OP/BE portfolios are formed on operating profitability divided by book equity. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

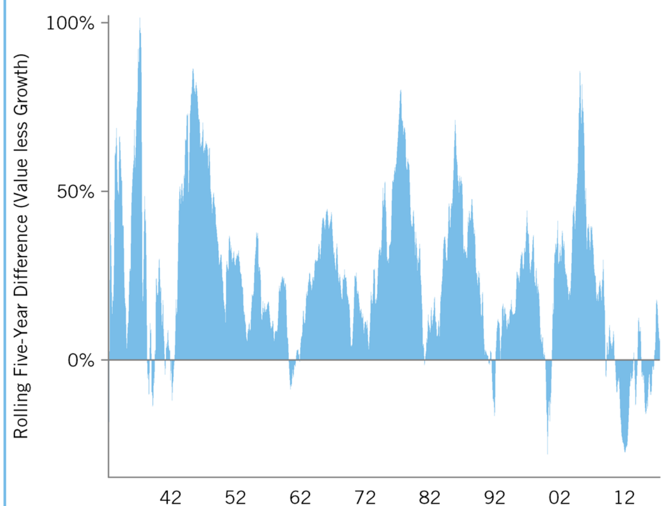
While Value enjoyed a terrific revival in 2016, as evidenced by the Russell 3000 Value (R3KV) index returning 17.38%, compared to a 7.38% advance for the Russell 3000 Growth (R3KG) index, the script has completely flipped thus far in 2017, with the R3KG leading the performance derby by 1090 basis points (nearly 11%) as of July 31. Alas, the tremendous gains this year in the popular FANG stocks (Facebook, Amazon, Netflix and Google), which pay no dividends and sport rich multiples of earnings, sales and book value have not done Value any favors, though our own number crunching (equally weighting members of the Russell 1000 index) illustrates that there were plenty of other winners over the first half of 2017 amongst the Low 30% (Growth) scorers in that large-cap index.

Interestingly, our decision to add EBITDA to Enterprise Value (six years ago) and Free Cash Flow Yield (one year ago) to the valuation measures we show on our Recommended Stocks listing and to explicitly include the pair in our proprietary stock screening algorithm continues to be supported by our ongoing performance analytics. Of course, even though they were the best of the Value factors in the first half of the year, the High 30% of scorers on these measures did not win the short-term returns competition, but they continue to hold the lead in our annual study for all time spans of five years or more.

To be sure, there is no one metric or even a combination of valuation metrics that are guaranteed to yield outsize returns, so a quantitative assessment of our 3000+ universe of investable stocks is just the first step in our process. Still, we like that our math forces us to fish from an undervalued pond, especially with the major market averages trading at all-time highs and our belief that Value's return to prominence will coincide with rising interest rates. And market history argues that a great time to gravitate toward Value is following poor/lackluster showings (as we see now) in the five-year performance race.

ROLLING 5-YEAR FF VALUE LESS FF GROWTH

Value has far more often won the returns race, and occasional poor five-year returns (such as today) usually give way to outperformance.



From 06.30.27 through 06.30.17. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

FIRST HALF OF 2017 FACTOR PERFORMANCE

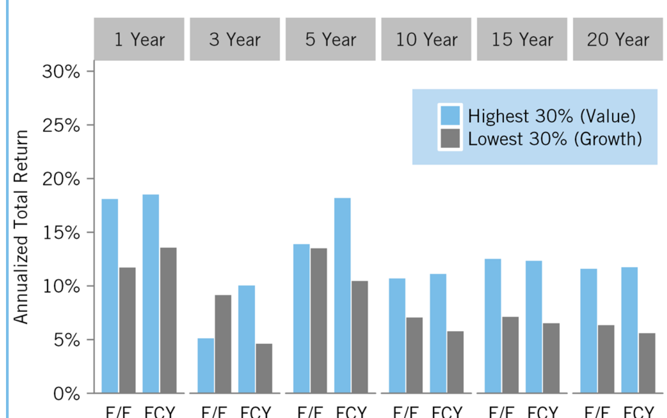
Value (High 30%) metrics performed poorly in the first half of 2017, save for EBITDA/EV and Free Cash Flow Yield...

Metric	High 30%	Middle 40%	Low 30%
EBITDA/EV *Earnings before Interest, Taxes, Depreciation and Amortization to Enterprise Value*	7.8%	8.9%	9.4%
E/P *Earnings per share divided by Price*	6.8%	9.6%	8.4%
SALES/P *Sales per share divided by Price*	4.7%	8.6%	9.7%
BOOK/P *Book Value per share divided by Price*	3.5%	7.9%	12.2%
TBV/P *Tangible Book Value per share divided by Price*	1.5%	7.5%	11.4%
DVD Yield *Dividends paid per share divided by Price*	3.7%	8.5%	7.5%
EBIT Yield *Trailing 12-month Operating Income per share divided by Price*	6.9%	8.3%	8.0%
EBITDA Yield *Trailing 12-month EBITDA per share divided by Price*	5.4%	9.3%	9.8%
FCFY *Free Cash Flow per share divided by Price*	7.0%	10.8%	4.7%
Average	5.3%	8.8%	9.0%

From 12.31.16 through 06.30.17. Portfolios are formed using the Russell 1000 ranked by decile. Deciles are grouped into three buckets (High 30%, Middle 40% and Low 30%), then averaged. Stocks that cease trading mid-year are given the risk-free return for the balance of the year. SOURCE: Al Frank using data from Bloomberg

EBITDA/EV & FREE CASH FLOW YIELD

...which are two factors we have recently incorporated into our analytics, given excellent relative returns over the past two decades.



From 12.31.96 through 12.31.16. Portfolios are formed using the Russell 1000 ranked by decile on (E/E) EBITDA/EV Earnings before Interest, Taxes, Depreciation and Amortization to Enterprise Value and (FCY) free-cash-flow yield (trailing 12-month free cash flow divided by market capitalization) at the end of each year. Stocks that cease trading mid-year are given the risk-free return for the balance of the year. Rebalanced annually. 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.

Industry Group	Ticker[1]	Company	Price	Target Price	Price Multiples EPS	Price Multiples Sales	Price Multiples TBV[2]	EV/ EBITDA[3]	FCF Yield[4]	Debt/ TE[5]	Div Yield	Mkt Cap
Autos & Components	GM	General Motors	35.98	45.81	5.5	0.3	1.3	2.0	16.5	149%	4.2%	52,430
	GT	Goodyear Tire	31.51	50.83	8.9	0.5	1.9	6.2	4.8	129%	1.3%	7,933
Banks	BAC	Bank of America	24.12	32.12	14.3	nmf	1.4	nmf	nmf	nmf	1.2%	238,260
Capital Goods	FLR	Fluor Corp	43.43	65.66	13.4	0.3	2.3	7.6	10.0	57%	1.9%	6,071
	TRN	Trinity Industries	27.41	38.07	17.0	1.0	1.3	7.7	2.9	103%	1.9%	4,148
Commercial Services	MAN	ManpowerGroup	107.15	129.95	16.4	0.4	7.7	9.2	6.0	49%	1.7%	7,188
Consumer Dur & App	WHR	Whirlpool	177.88	225.72	12.9	0.6	nmf	9.7	5.6	nmf	2.5%	12,982
Diversified Financials	GS	Goldman Sachs	225.33	258.96	12.3	nmf	1.3	nmf	nmf	nmf	1.3%	92,228
	SYF	Synchrony Fin'l	30.32	40.82	11.4	nmf	1.9	nmf	nmf	nmf	2.0%	24,115
Energy	HAL	Halliburton	42.44	57.98	nmf	2.2	5.7	22.3	4.1	166%	1.7%	36,991
	SLB	Schlumberger Ltd	68.60	103.94	61.3	3.3	19.7	23.0	3.1	344%	2.9%	94,978
	TOT	Total SA	50.67	75.93	12.4	0.8	1.2	6.3	4.2	39%	3.8%	126,753
Food & Staples Retailing	KR	Kroger	24.52	36.20	12.3	0.2	11.2	6.7	5.0	587%	2.0%	22,003
	WBA	Walgreens Boots	80.67	121.50	16.6	0.7	17.7	13.2	7.5	295%	2.0%	86,325
Food Bev & Tobacco	TSN	Tyson Foods	63.36	75.29	13.3	0.7	nmf	8.5	7.5	nmf	1.4%	24,717
Health Care Equip/Srvcs	CAH	Cardinal Health	77.26	95.19	14.7	0.2	nmf	9.5	2.5	nmf	2.4%	24,405
	ZBH	Zimmer Biomet	121.32	170.63	14.9	3.1	nmf	16.6	4.7	nmf	0.8%	24,463
Household Products	KMB	Kimberly-Clark	123.16	145.20	20.4	2.4	nmf	12.6	5.3	nmf	3.2%	43,513
Insurance	AXS	Axis Capital	64.58	72.22	13.4	nmf	1.1	nmf	nmf	nmf	2.4%	5,462
	MET	MetLife	55.00	80.14	11.5	nmf	1.0	nmf	nmf	nmf	2.9%	59,176
Materials	CE	Celanese	96.17	114.64	14.2	2.4	9.3	15.0	3.7	207%	1.9%	13,227
	MOS	Mosaic	24.14	41.11	31.1	1.2	1.1	13.5	3.7	47%	2.5%	8,474
Media	DIS	Walt Disney	109.93	144.22	19.0	3.1	18.9	11.3	4.5	184%	1.4%	172,027
Pharma/Biotech/Life Sci	AMGN	Amgen	174.51	221.26	14.2	5.5	17.2	9.9	7.5	454%	2.6%	127,336
	MRK	Merck	63.88	76.25	16.6	4.4	40.0	17.4	3.9	536%	2.9%	174,722
	SHPG	Shire PLC	167.54	266.38	12.4	3.9	nmf	nmf	4.1	nmf	0.9%	50,708
Real Estate	DLR	Digital Realty Trust	115.34	125.93	19.5	nmf	5.7	nmf	nmf	nmf	3.2%	18,983
	KIM	Kimco Realty	20.18	28.16	15.1	nmf	1.9	nmf	nmf	nmf	5.4%	8,589
Retailing	TGT	Target	56.67	74.73	11.5	0.5	2.9	5.8	14.8	103%	4.4%	31,265
	WSM	Williams-Sonoma	46.43	65.10	13.5	0.8	3.3	6.1	8.5	0%	3.4%	4,023
Semis & Cap Equipment	QCOM	Qualcomm	53.19	70.36	11.5	3.5	3.8	11.4	4.8	93%	4.3%	78,512
Software & Services	CA	CA Inc	31.04	39.13	12.5	3.2	nmf	9.0	7.7	nmf	3.3%	13,075
	IBM	Int'l Business Machines	144.67	188.28	10.6	1.7	nmf	10.5	8.9	nmf	4.1%	134,824
Technology Hardware	AAPL	Apple	148.73	163.90	17.4	3.5	6.2	8.9	6.7	67%	1.7%	776,080
	GLW	Corning	29.14	39.61	16.8	2.7	2.0	9.7	4.3	25%	2.1%	26,319
	STX	Seagate Technology PLC	32.96	46.85	8.0	0.9	nmf	6.8	15.2	nmf	7.6%	9,777
Telecom Services	VZ	Verizon	48.40	55.80	12.8	1.6	nmf	6.8	1.5	nmf	4.8%	197,424
Transportation	DAL	Delta Air Lines	49.36	68.05	10.0	0.9	nmf	5.2	3.6	nmf	1.6%	35,738
	DPSGY	Deutsche Post AG	38.76	53.35	14.5	0.7	nmf	8.8	1.9	nmf	2.9%	47,077
	NSC	Norfolk Southern	112.58	133.59	18.4	3.2	2.6	9.7	4.1	73%	2.2%	32,444

As of 07.31.17. 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 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

Modest cash having again accumulated in our four newsletter portfolios, we will do a little shopping this month. We will add $20,000 of **Delta Air Lines**, **Trinity Industries** and **Zimmer Biomet** to PruFolio, while we will buy $10,000 of **Axis Capital** and **Schlumberger** in Millennium Portfolio. We also will pick up $6,000 of **CA Inc.**, **Digital Realty** and **Kimberly-Clark** in Buckingham Portfolio and we will purchase $29,000 of **Bank of America** and **Williams-Sonoma** in TPS Portfolio. As is our custom, we will wait four trading days until August 7 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AXS	Axis Capital Holdings	Financials	64.58	72.22
BAC	Bank of America	Financials	24.12	32.12
CA	CA Inc	Information Technology	31.04	39.13
DAL	Delta Air Lines	Industrials	49.36	68.05
DLR	Digital Realty Trust	Real Estate	115.34	125.93
KMB	Kimberly-Clark	Consumer Staples	123.16	145.20
SLB	Schlumberger Ltd	Energy	68.60	103.94
TRN	Trinity Industries	Industrials	27.41	38.07
WSM	Williams-Sonoma	Consumer Discretionary	46.43	65.10
ZBH	Zimmer Biomet	Health Care	121.32	170.63

As of 07.31.17. SOURCE: Al Frank using data from Bloomberg

Axis Capital Holdings (AXS)

Axis is a global insurer, offering a diversified portfolio of specialty commercial property and casualty insurance and reinsurance, emphasizing high severity and low frequency business. Axis represents a solid specialty franchise with an experienced management team. We like that leadership is focused on controlling costs and bringing specialist underwriting to new target markets, as well as creating more business balance and decreasing volatility. Q2 adjusted EPS of $1.31 topped consensus estimates of $1.19. While results were better than expected, the bottom line was impacted by a higher frequency of property losses than forecast, but fee income related to capital partners was much better than planned. Axis has suspended share repurchases until 2018 as it recently closed on the acquisition of Aviabel, a European specialty aviation reinsurer, and announced an accretive offer to acquire Novae Group PLC, a diversified specialty reinsurer operating through Lloyd's of London. Long a rumored buyout candidate itself, AXS currently yields 2.4% and trades near book value.

Bank of America (BAC)

Bank of America is a global financial giant, serving individual consumers, small- and middle-market businesses and large corporations with a full range of banking, investing, asset management, and other financial and risk management products and services. In the U.S., BAC serves 47 million customers via 4,600 retail financial centers, 15,900 ATMs, and online banking services with 34 million active users, including 23 million active mobile users. With many of the problems of the past decade seemingly in the rear-view mirror, BAC has numerous opportunities to capitalize, from its large deposit base and consumer lending franchise to its "thundering herd" of Merrill Lynch's financial advisors and wealth managers. We like that credit quality improved in the latest quarter, which also saw EPS top analyst projections. With the shares trading for just 12 times estimated earnings, and the bottom line likely to benefit from higher interest rates, we think BAC is very attractive. The Federal Reserve in June approved the bank's Comprehensive Capital Analysis and Review plan, with the company since announcing a 60% hike in its quarterly dividend to $0.12 per share and the buyback of $12 billion in common stock by June 2018.

CA Inc (CA)

CA, once known as Computer Associates, designs, develops and licenses computer software products that are used in mainframe and cloud computing environments. The company is focused on developing applications for cloud and mobile use, and earns about two-thirds of revenue from the U.S. In June, news broke that privately-held BMC Software was looking to buy CA, sending shares up 15%. The stock has since retreated to pre-deal-talk levels after BMC officially ended discussions, likely due to difficulty finding financing or an agreeable price. With fiscal Q1 earnings due in a few days, we think that shareholders should continue to see strong cloud interest and revenue growth for the standalone company, while tight cost controls and resupplying the cash reserves would be icing on the cake. CA used up a significant portion of cash (debt is now in line with cash) on the acquisitions of Automic Holding, a leader in business process and IT automation software, and Veracode, a leading SaaS-based secure DevOps platform provider. While a hit to the strength of the balance sheet, we think that the purchases are fine additions to the company. With the recent pullback, CA now trades for 13 times estimated earnings and yields 3.3%.

Delta Air Lines (DAL)

Delta Air Lines is one of the largest air carriers in North America by passengers flown and fleet size. Delta serves more than 160 million customers each year and offers service to 325 destinations in 60 countries. DAL earned $1.64 per share in fiscal Q2 2017 (vs. $1.66 est.) and had sales of $10.8 billion (matching est.). Severe April storms in the Atlanta area had a $125 million negative impact for the airline, while Delta benefitted from an 11% increase in cargo revenue and a $261 million passenger revenue increase. Delta's average fuel price was $1.66 per gallon for Q2, including a $0.01 benefit from owning a refinery in Trainer, PA. Amid a battle for market share in the Northwest, DAL ended its partnership with Alaska Airlines and is developing a trans-Pacific partnership with Korean Air Lines to give Delta customers better route choices when flying over the Pacific. Delta continues to strive to woo business travelers by renovating lounges around the world, offering gate transfers via Porsche and serving top-notch food, in an effort to ensure that the highest-margin travelers return. DAL trades for 8.4 times NTM earnings.

Digital Realty Trust (DLR)

Digital Realty is an owner and manager of technology-related real estate. The data centers are located throughout the U.S. and England, and host critical infrastructure for clients of all sizes. The buildout of cloud infrastructure around the world creates growing demand for DLR's offerings, as major technology companies like Microsoft work to deploy their cloud-based applications and services. We believe that DLR is uniquely positioned to benefit from this growth. The company has 156 existing data centers and the pending all-stock merger with DuPont Fabros should give DLR enhanced metro area exposure, additional hyper-scale product offerings, cost synergies and external growth potential via a strong development pipeline. We like that the company has a broad customer base (more than 2,200 clients; IBM is the largest at 7.8% of aggregate annualized rent), expected 2017 FFO (a measure of real estate investment cash flow) of $6.02 per share and a solid 3.2% dividend yield.

Kimberly-Clark (KMB)

Kimberly-Clark manufactures tissue, personal care and healthcare products. Its global brands include: Huggies, Pull-Ups, Kotex, Kleenex, Viva, Scott, Depend and Poise. KMB has leading market share positions in some of the larger household product categories, while its focus on increasing its emerging market businesses has been and should continue to be an important long-term growth driver. Shares have fallen almost 8% since the end of June as KMB navigates through a challenging operational environment. Q2 EPS of $1.49 on revenue of $4.6 billion were in line with expectations, but were seemingly disappointing to investors. While we would like to see improved organic growth, we were pleased with additional cost savings in the period, improvements in working capital and the continued commitment to returning capital to shareholders. We think that KMB should be able to realize future pricing and margin improvements through product innovation and marketing. Long-term sales growth should be aided by expansion in non-traditional categories and deeper penetration into emerging economies to capitalize on rising incomes and birth rates within these regions. KMB generates solid free cash flow, which supports share repurchases and a 3.2% dividend yield.

Schlumberger Ltd (SLB)

Schlumberger is the world's largest provider of services and equipment used in drilling, evaluation, completion, production and maintenance of oil and natural gas wells. Having the largest global oil services platform, a dominant international franchise, the potential benefits from its acquisition of Cameron (makes pressure control equipment, including valves and wellheads) and the most balanced exposures of the diversified service providers, we think SLB is one of the best-positioned energy names to not only survive the turbulence in the oil patch, but to thrive from an eventual turn in the cycle. We are pleased to see that the internal transformation and restructuring initiatives are taking hold, as was evident in the Q2 financial results that included revenue and adjusted earnings per share that beat consensus analyst estimates as international markets began rebounding more quickly than expected. We like that SLB generates solid free cash flow and is a strong player within the technology advances in the oil biz. High-quality SLB currently yields a rich 2.9%.

Trinity Industries (TRN)

Trinity is a diversified industrial company that provides 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 Product Group and the Energy Equipment Group. Trinity recently reported Q2 adjusted EPS of $0.33 (vs. $0.30 est.) on revenue of $905 million (vs. $947 million est.), while saying that despite the continued operating headwinds, full-year earnings are expected to be a bit higher than previously projected and backlog is still in excess of $3.6 billion. Additionally, Trinity repurchased almost 2 million shares during the quarter and still has $163 million remaining under its current buyback authorization. We continue to like that TRN has broad business diversification, with leading market positions in numerous areas. The highly cyclical stock yields 1.9%.

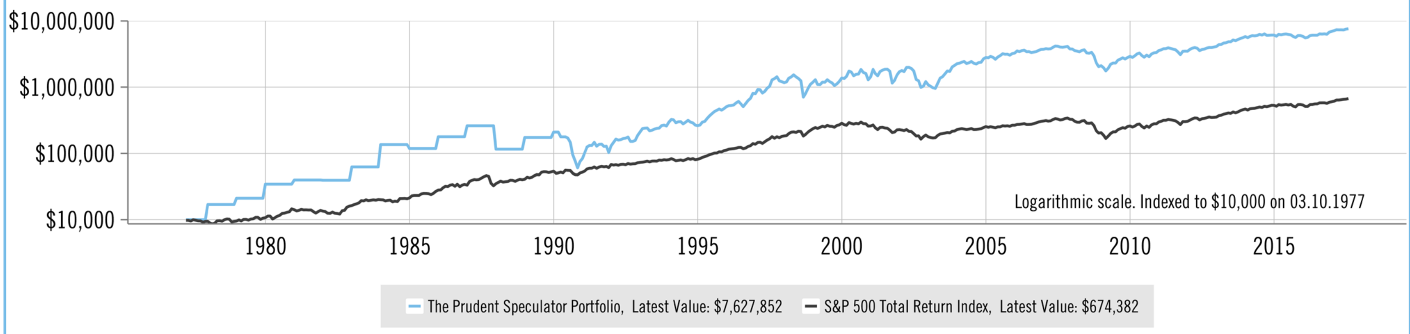
Williams-Sonoma (WSM)

Williams-Sonoma is a retailer of cooking equipment, home furnishings and home accessories through retail stores, mail-order catalogs and e-commerce. Believe it or not, more than half of the company's better than $5 billion in annual revenue is derived online, but the stock has taken a few beatings over the past year, the most recent decline since April primarily on concerns about the Amazon threat and other retailers' disappointing sales numbers. At last report, WSM still expects to earn $3.45 to $3.65 per share in fiscal 2018, propelled by the West Elm brand, while the analyst consensus sits at exactly the midpoint with only one quarter so far reported. West Elm's contemporary furniture and housewares have proven popular with younger consumers, and management has been working to meet the demand by expanding the store count and introducing new casual seating and dining collections. We like WSM's balance sheet, which includes no long-term debt (though there are lease obligations). The company also has $372 million remaining on its repurchase program, which it intends to execute over the next two years, and the stock yields a generous 3.4%.

Zimmer Biomet (ZBH)

Zimmer Biomet is a global leader in orthopedic implants (hips, knees, spine, trauma and dental) as well as related orthopedic surgical products. ZBH is by far the king in hip and knee implants and we believe favorable demographics, which include aging "Baby Boomers" and increasing obesity rates, will drive solid demand for large joint replacement. Additionally we like that Zimmer has a history of strong relationships with the orthopedic surgeons that use its products. The doctors in this specialty have frequently shown resistance to efforts by hospitals or health systems to limit their ability to choose their brand. While shares have performed well in 2017, ZBH has pulled back since reporting Q2 revenue and earnings that were in line with expectations as near-term growth remains somewhat subdued. We think growth will pick up over time and we like that ZBH consistently generates strong free cash flow, while management now forecasts 2017 adjusted EPS of $8.20 to $8.30. Shares are trading at less than 15 times the midpoint of guidance, with that multiple only 60% of the average of its peer group.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jul	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	1.59	8.45	19.36	6.02	13.54	3.78	NA
Millennium	1.40	8.10	18.24	6.98	14.30	6.57	10.21
PruFolio	2.05	9.77	19.51	7.31	13.85	6.32	11.74
TPS	1.43	9.53	19.74	7.63	15.21	6.60	12.51
Major Indexes							
Russell 3000	1.89	10.98	16.12	10.51	14.79	7.82	9.39
Russell 3000 Value	1.28	5.65	14.15	8.52	13.97	6.25	8.95
S&P 500	2.06	11.59	16.03	10.86	14.77	7.74	9.08
Dow Jones Indu. Avg.	2.68	12.28	21.81	12.54	13.79	8.01	9.03

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	11.83	9.88	Russell 3000
Millennium	12.31.99	9.58	5.46	Russell 3000
PruFolio	12.29.00	13.18	6.29	Russell 3000
TPS	03.10.77	17.89	11.01	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,873 stock recommendations have returned, on average, an annualized 17.20%, not including dividends.

IMPORTANT INFORMATION

As of 07.31.17. 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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