February 3, 2015

the Prudent Speculator

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Punxsutawney Phil saw his shadow again signaling six more weeks of winter (even though it was a miserable rainy/snowy Groundhog Day in western Pennsylvania), Seattle again won the Super Bowl (oh wait, the Seahawks *threw* the game away in the final seconds), and the U.S. equity markets suffered a round of nervous selling after record highs were hit on the major market averages near the end of the prior year. Not quite Yogi Berra's déjà vu all over again, but 2015 began a lot like 2014 in terms of a pick-up in volatility, with most of it of the unwelcome downside variety. Indeed, there were nine days this January in which the Dow Jones Industrial Average on a closing basis dipped by more than 100 points, versus five days where the index climbed by more than 100 points, while a year ago, the month registered six triple-digit setbacks.

> "Don't let yesterday use up too much of today."
>
> —Will Rogers

This time around, January again bucked the historical propensity for strong initial-month returns as the Dow tumbled 3.6%, the widely followed S&P 500 sank 3.0% and our benchmark Russell 3000 index dropped 2.8%. And Value stocks had a much tougher time, relatively speaking, with the Russell 3000 Value index plunging 4.0%, compared to a 1.6% decline for the Russell 3000 Growth. The rout in commodities and the strength of the U.S. dollar pressured the Energy, Materials and Industrials sectors, where many an undervalued stock continues to reside.

Certainly, no two market environments are ever identical, even as fears about geopolitical events, concerns about the health of the global economy, worries about a less-accommodative monetary policy stance from the Federal Reserve and question marks about U.S. GDP growth that dot today's investment landscape were just as prevalent a year ago when the S&P 500 fell 3.5% in January, before rebounding mightily to end the year up 13.7%. Of course, we concede that the outlook for corporate profit growth in 2015 has weakened since the start of the year as the impact of currency translations has been more severe than anticipated, while the recent victory by the anti-austerity Syriza party in Greece elevates the risk of unfavorable financial developments in Europe.

No assurances that the balance of this year enjoys the same kind of rebound as we witnessed in 2014, but unlike the first two days of February last year, U.S. equity markets staged an impressive rally as the current month began. Believe it or not, the latest advance was fueled in large part by a significant bounce in the price of crude and better news on Greek debt negotiations, issues that just the week prior caused plenty of consternation.

Needless to say, the tide can turn very quickly, which is why we constantly state that the only problem with market timing is getting the timing right. We are always braced for more volatility, and we know that even with the powerful start to February, the market averages are still in the red for the year, but we continue to think that stocks are a great place to invest for those with a long-term time horizon. After all, the 2.7% or so average dividend yield on our four newsletter portfolios is now well above not only the 1.8% yield of the 10-Year U.S. Treasury bond, but also higher than the 2.4% yield on the 30-Year Treasury.

We also note that the massive 1 trillion euro stimulus package announced two weeks ago by the European Central Bank should boost economic growth on the Continent, while we think that the U.S. economy will grow by 2.6% to 3.0% in 2015, in line with Federal Reserve projections.

Further, we think that the Fed will remain "patient" in its decision to begin to move interest rates higher, even as the U.S. approaches full employment. We also believe that a modest increase in the Fed Funds rate off of the current level near zero actually would be a positive in that it would signal that the domestic economy is poised for even healthier growth, while a rate hike or two hardly makes a dent in removing the massive accommodation the agency has provided since the beginning of the Financial Crisis.

John Buckingham

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

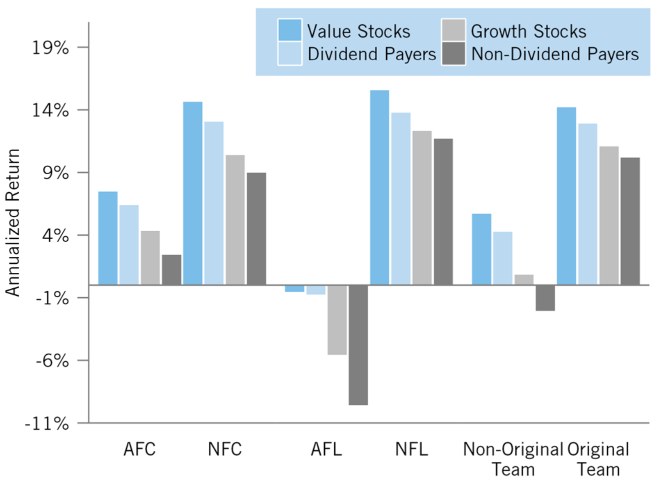
Historical Precedents

Seahawk fans will forever rue the coach's call (the worst in football history?) taking the ball out of the hands of star running back Marshawn Lynch, but there may be greater likelihood of a less favorable rest of the year for equity investors as a result of that Malcolm Butler last-minute goal-line interception. The Super Bowl Indicator doesn't always hold true, but 48 years of market history show that stocks perform much better when an NFC/NFL/Original NFL team wins. Seattle is part of the first two groups, but not the last, given that it was an expansion franchise in 1976, along with Tampa Bay, Super Bowl XXXVII winner in 2003. New England is a resident of all three AFC/AFL/Non-Original NFL cohorts, so those who share our bullish long-term view are hoping that Tom Brady decides to hang up his cleats soon!

Adding to fears, the old adage, "As goes January so goes the year," isn't a great omen for stock market returns over the balance of 2015, what with the major market averages hitting the skids last month. Of course, we need only turn the calendar back to 2014 for the latest example of form not holding as a 3.5% dip in the S&P 500 in January was quickly erased on the way to a 13.7% advance for the full year. And though the Year of the Sheep/Goat/Ram (we've seen all three references) historically has been at the bottom of the barrel for Value and Dividend stocks for the 12 years of the Chinese zodiac, performance for TPS Portfolio (launched in 1977) for full-year 1979 (+63%), 1991 (+56%) and 2003 (+109%) was spectacular.

SUPER BOWL INDICATOR

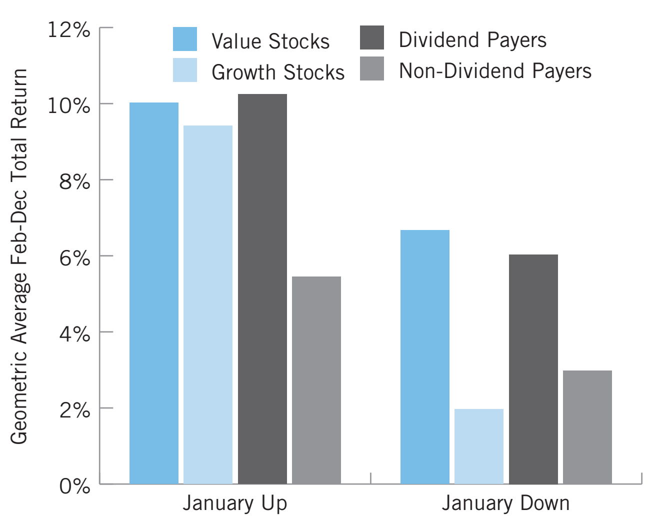
Though 2008 was an awful year, despite the Giants winning Super Bowl XLII, the Patriot victory this year is not a positive for stocks.



From 01.31.67 through 12.31.14. Geometric mean of 11-month returns each year following the Superbowl from Jan. 31 through Dec. 31. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

JANUARY BAROMETER

A down January does not bode particularly well for the rest of 2015, but Value Stocks and Dividend Payers are poised to earn their keep.



From 01.31.28 through 12.31.14. Geometric average of 11-month (February through December) total returns. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

CHINESE NEW YEAR

While Value & Dividend stocks have still been in the black, the soon-to-begin Year of the Sheep/Goat/Ram is not exactly auspicious.

	Value Stocks	Growth Stocks	Dividend Stocks	Non-Dividend Stocks
Horse	7.7%	-0.4%	2.2%	-0.8%
Sheep/Goat/Ram	3.7%	2.5%	4.0%	4.7%
Monkey	16.6%	17.0%	8.2%	24.0%
Rooster	19.6%	11.7%	11.9%	14.4%
Dog	26.9%	17.0%	14.7%	18.3%
Pig	9.4%	8.5%	11.2%	-1.6%
Rat	21.4%	14.4%	16.2%	15.9%
Ox	4.8%	3.0%	6.5%	-1.8%
Tiger	7.7%	1.3%	8.0%	-1.5%
Rabbit	16.3%	12.4%	16.1%	14.2%
Dragon	7.5%	11.6%	10.4%	8.3%
Snake	22.1%	11.2%	16.2%	10.8%

From 01.31.28 through 01.31.14. Geometric average of monthly returns from February through January (Chinese New Year generally begins within a few weeks after or prior to January 31). Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

Investors are always searching for indicators that will provide advance warning of a downturn, but we believe that far more money has been lost preparing for a correction than has been lost in the corrections themselves. After all, Value and Dividend-Paying stocks have enjoyed double-digit per-annum percentage returns dating back to 1927, while the odds are stacked heavily in favor of those who can hold for the long term as only 7% to 8% of the time have portfolios of these stocks lost money over five-year periods. Of course, folks still nervous about the Super Bowl Indicator, the January Barometer or the Chinese New Year can take comfort that 2015 is the most favorable of the four-year Presidential Cycle, while years ending in the number 5 have been the best of the ten digits.

LONG-TERM RETURNS

Though equities require tolerance of greater volatility, their returns over the past 87 years generally have been handsome.

Category	Ann Ret	Std Dev
Value Stocks	13.5%	26.2%
Growth Stocks	9.1%	21.7%
Dividend Paying Stocks	10.4%	18.3%
Non-Dividend Paying Stocks	8.5%	30.1%
Long-Term Corporate Bonds	6.0%	7.5%
Long-Term Gov't Bonds	5.6%	8.5%
Intermediate Gov't Bonds	5.3%	4.4%
Treasury Bills	3.5%	0.9%
Inflation	3.1%	1.8%

From 12.31.27 through 12.31.14. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

PATIENCE IS VIRTUOUS

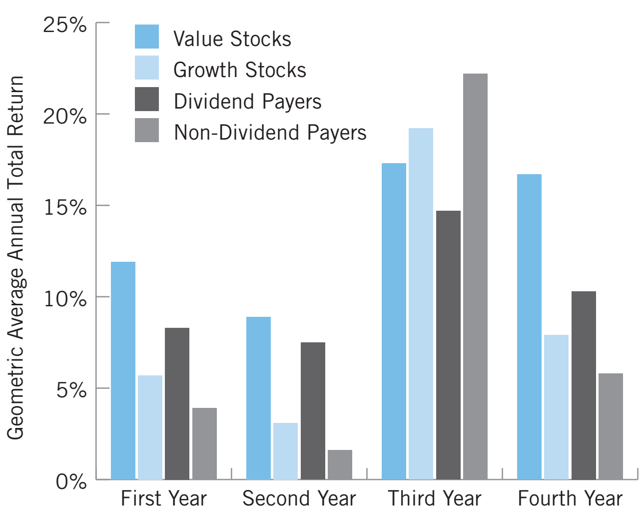
As the longer the holding period, the lower the chance of loss, our long-term orientation is a major part of our risk mitigation.

	Value Stocks			Dividend Payers		
	#Pos	#Neg	%Pos	#Pos	#Neg	%Pos
1 Month	694	350	66.5%	656	388	62.8%
3 Months	733	309	70.3%	717	325	68.8%
6 Months	753	286	72.5%	745	294	71.7%
1 Year	791	242	76.6%	775	258	75.0%
2 Years	880	141	86.2%	860	161	84.2%
3 Years	911	98	90.3%	851	158	84.3%
5 Years	919	66	93.3%	905	80	91.9%
7 Years	948	13	98.6%	924	37	96.1%
10 Years	923	2	99.8%	891	34	96.3%
15 Years	865	0	100.0%	865	0	100.0%
20 Years	805	0	100.0%	805	0	100.0%

From 12.31.27 through 12.31.14. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

PRESIDENTIAL CYCLE

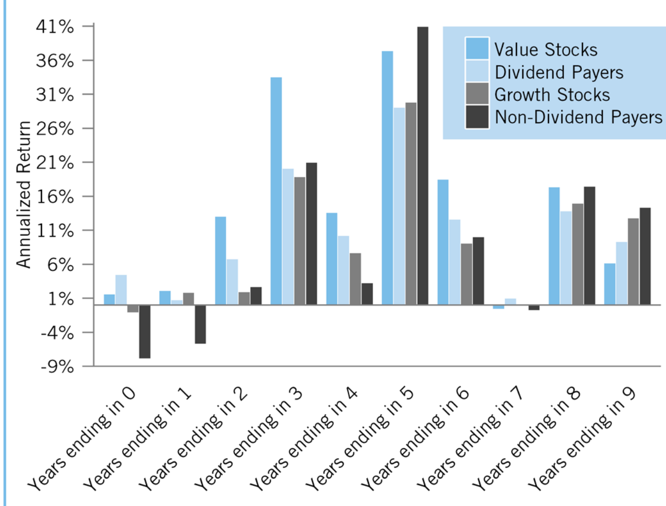
Struggles in 2007 and 2011 illustrate that the past is not always prologue, but we are now in the best of the four presidential years.



From 12.31.27 through 12.31.14. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

YEARS ENDING IN 5

Market history merely a guide and not a gospel, the past eight "5" years have seen terrific returns on average.



From 12.31.27 through 12.31.14. Geometric mean. Value weighted. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

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	24.24	41.06	8.2	0.4	6.0	5.7	558%	1.0%	6,655
Banks	BBT	BB&T	35.29	47.94	12.3	nmf	1.8	nmf	nmf	2.7%	25,419
	CM	Canadian Imperial Bank	69.42	97.90	7.8	nmf	1.8	nmf	nmf	5.3%	27,573
	HSBC	HSBC Holdings PLC	45.72	60.97	9.0	nmf	1.1	nmf	nmf	4.4%	175,687
	ONB	Old National Bancorp	13.41	21.29	12.8	nmf	1.8	nmf	nmf	3.6%	1,576
Capital Goods	CAT	Caterpillar	79.97	106.64	9.4	0.9	6.9	6.1	398%	3.5%	48,414
	ETN	Eaton PLC	63.09	82.75	14.1	1.3	nmf	14.5	nmf	3.1%	29,943
	FLR	Fluor	53.59	80.32	13.1	0.4	2.4	4.9	14%	1.6%	8,372
	GE	General Electric Co	23.89	33.84	14.4	1.6	6.4	10.1	973%	3.9%	239,908
	TRN	Trinity Industries	26.47	50.01	7.1	0.7	1.9	5.2	138%	1.5%	4,120
Consumer Dur & App	COH	Coach	37.19	55.15	14.8	2.3	4.8	7.9	0%	3.6%	10,249
	MDC	MDC Holdings	25.00	42.97	15.7	0.7	1.0	17.5	74%	4.0%	1,221
Diversified Financials	CS	Credit Suisse Group AG	21.04	39.94	8.4	nmf	0.9	nmf	nmf	3.7%	33,815
Energy	APA	Apache	62.57	103.13	9.8	1.7	0.8	3.6	33%	1.6%	23,556
	E	Eni SpA	33.90	50.32	11.9	0.2	1.0	4.2	39%	6.2%	61,599
	ESV	Ensco PLC	28.04	44.25	4.5	1.3	0.8	8.0	55%	10.7%	6,569
	HAL	Halliburton Co	39.99	67.77	9.9	1.0	2.4	5.5	56%	1.8%	33,890
	HFC	HollyFrontier	35.92	51.10	12.1	0.3	2.0	5.5	29%	9.1%	7,031
	PGN	Paragon Offshore PLC	2.09	6.09	1.1	0.1	0.4	nmf	329%	23.9%	177
	RDS/A	Royal Dutch Shell PLC	61.45	84.80	7.5	0.2	1.0	4.9	23%	5.2%	196,146
	SFL	Ship Finance Int'l Ltd	13.89	19.13	12.2	4.2	1.1	14.0	114%	11.8%	1,295
	TDW	Tidewater	29.26	58.26	7.1	1.0	0.6	7.0	61%	3.4%	1,455
	TOT	Total SA	51.51	77.03	10.5	0.7	1.3	5.1	30%	5.0%	122,829
Health Care Equip/Srvcs	BAX	Baxter Int'l	70.31	95.07	13.7	2.3	20.0	11.8	427%	3.0%	38,106
Insurance	PRU	Prudential Financial	75.88	112.21	8.2	nmf	0.9	nmf	nmf	3.1%	34,753
Materials	AUY	Yamana Gold	4.11	7.85	46.9	2.6	0.6	nmf	17%	1.5%	3,622
	BHP	BHP Billiton Ltd	46.33	67.21	9.2	1.1	2.1	5.0	41%	5.4%	120,154
	CE	Celanese	53.76	87.27	9.4	1.2	4.3	9.8	135%	1.9%	8,259
	FCX	Freeport-McMoRan	16.81	40.26	8.6	0.8	1.0	10.3	101%	7.4%	17,466
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	100.14	117.02	16.8	3.8	10.8	10.5	52%	2.8%	280,303
	PFE	Pfizer	31.25	39.51	13.8	4.0	nmf	10.1	nmf	3.6%	196,896
	SNY	Sanofi	46.09	60.73	15.8	6.6	nmf	11.8	nmf	3.5%	121,619
Real Estate	ANH	Anworth Mortgage Asset	5.19	6.38	13.7	nmf	0.8	nmf	nmf	10.8%	588
Software & Services	IBM	Int'l Business Machines	153.31	227.32	9.4	1.6	nmf	8.4	nmf	2.9%	151,725
	MSFT	Microsoft	40.40	53.85	15.1	3.5	5.3	8.2	33%	3.1%	331,433
Technology Hardware	AVX	AVX	12.93	20.10	13.9	1.6	1.2	5.5	0%	3.2%	2,172
	JBL	Jabil Circuit	20.61	33.91	nmf	0.2	2.5	7.0	103%	1.6%	3,982
	QCOM	QUALCOMM	62.46	87.90	13.0	3.8	3.2	7.7	0%	2.7%	103,032
Telecom Services	• T	AT&T	32.92	39.04	13.1	1.3	nmf	8.2	nmf	5.7%	170,756
Transportation	NM	Navios Maritime Holdings	3.63	8.02	nmf	0.7	0.4	nmf	178%	6.6%	379

As of 01.31.15. 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

Cash having been generated by the sale of three different stocks last month, we will look to take advantage of the January swoon by picking up $6,000 of **Goodyear Tire** and **Pfizer** in Buckingham Portfolio, $10,000 of **AT&T** and **Tidewater** in Millennium Portfolio, and $29,000 of **AVX Corp** and **Coach** in TPS Portfolio. We will also bring the following positions up to $20,000 in PruFolio: **BB&T Corp**, **Freeport-McMoran Copper & Gold**, **IBM** and **MDC Holdings**. As is our usual custom, we will wait four trading days until February 9 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AVX	AVX	Information Technology	12.93	20.10
BBT	BB&T	Financials	35.29	47.94
COH	Coach	Consumer Discretionary	37.19	55.15
FCX	Freeport-McMoRan	Materials	16.81	40.26
GT	Goodyear Tire & Rubber	Consumer Discretionary	24.24	41.06
IBM	Int'l Business Machines	Information Technology	153.31	227.32
MDC	MDC Holdings	Consumer Discretionary	25.00	42.97
PFE	Pfizer	Health Care	31.25	39.51
T	AT&T	Telecom Services	32.92	39.04
TDW	Tidewater	Energy	29.26	58.26

As of 01.31.15. SOURCE: Al Frank using data from Bloomberg

AVX (AVX)

AVX is a manufacturer and supplier of electronic components, including ceramic and tantalum capacitors for use in products that need to store energy. Approximately 72% of the company is owned by Kyocera of Japan. AVX recently reported solid adjusted fiscal third quarter earnings per share of $0.23 as revenue was flat year-over-year, but the company continued to benefit from the cloud infrastructure build-out in China. CEO John Gilbertson explained, "We continue to sell a mix of more sophisticated, value-added products, and were pleased with our margin performance this quarter, which was aided by this product mix. The movement away from commodity-type components remains a key strategy of the company. We saw some pressures on prices as uncertainty continues in some areas, but still in the range of past experience." In addition to smartphone and tablet demand, we believe that cloud demand will build, providing a nice tailwind. Additionally, we like that AVX continues to return money to investors via a buyback program and yield of 3.2%.

BB&T (BBT)

BB&T is one of the largest financial services holding companies in the U.S. with $186.8 billion in assets at the end of 2014. The company operates 1,839 financial centers in 12 states and Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance products and services. BBT recently posted good core Q4

EPS of $0.77, $0.04 above consensus estimates. Also, the firm reported an improving efficiency ratio, healthy fee income growth, a decline in expenses, continued solid capital ratios and strong credit quality. We are optimistic about BBT's pending acquisition of Susquehanna Bancshares and the potential it brings, especially as the company has a history of lucrative deal-making. We like the focus on expense management, as well as the relatively conservative loan underwriting and an insurance operation that helps the bank diversify its revenue stream. BBT shares trade for less than 13 times forward earnings projections and offer a 2.6% yield.

Coach (COH)

Coach is a leading specialty retailer positioned in the appealing affordable luxury segment of the retail market. COH is best known for accessories (especially handbags). While much of its growth outside the U.S. has been concentrated in Japan, the company has a forward focus on Europe, China and other emerging economies. Shares of COH were hit relatively hard in 2014, as continued operational headwinds in North America and a tough competitive landscape took their tolls. We were pleased to see the better-than-expected quarterly earnings posted last month, and the green shoots the firm is seeing in its business as its brand transformation begins to take hold across the three brand pillars of product, stores and marketing. There is little doubt that a successful turnaround will take time, capital and cash flow, but we think it achievable. We continue to like the cash-rich balance sheet (the recently announced $530 million Stuart Weitzman is covered by the current $1.06 billion cash hoard), the strong global brand with loyal customers and the momentum in new geographic markets. We expect earnings to bottom in 2015 and we are buoyed by the 3.5% current dividend yield.

Freeport-McMoRan (FCX)

Freeport-McMoRan is a U.S.-based natural resource company with an industry leading global portfolio of mineral assets and significant oil and gas resources. With continued pressures on energy and metals prices, FCX shares have been taken out back to the woodshed over the last six months. While the going has been very tough, management recently announced that it would ramp copper output by some 26% next year and predicted a rebound in copper markets after 2015 due to positive long-term global fundamentals. We like that management is focused on implementing a series of initiatives to reduce capital and operating costs to maintain financial strength during a period of weaker commodity prices, while preserving a strong resource position and a portfolio of assets with attractive long-term growth prospects. We still like the long-term global opportunity that is in its path, while FCX trades for 14 times consensus forward (likely trough) earnings estimates and offers investors a robust (at least for the time being) 6.6% dividend yield.

Goodyear Tire & Rubber (GT)

Goodyear is a leading supplier of tires to the light and commercial vehicle markets. The firm's tires are sold in two distinct tire markets, replacement and vehicle manufacturers. Goodyear is an iconic brand with industry leading products, distribution breadth and a consumer-centric focus. We like the global diversification of GT's revenue generation and believe that over the long run, Goodyear should gain from higher demand for tires in emerging markets, given the rise in new vehicle sales as more people move into the middle class. Nearer term, GT should benefit from continued strong demand in developed markets, an improving product mix, tailwinds from the recent decline in input prices (rubber, carbon black and oil) and consumers driving more and opting to replace worn tires after years of deferral. While currency headwinds remain, we like management's continued focus on reducing expenses, strengthening the balance sheet, improving cash flow and returning capital to shareholders. GT shares trade for less than 9 times forward earnings projections.

Int'l Business Machines (IBM)

IBM is a leading provider of enterprise solutions, offering a broad portfolio of IT hardware, business and IT services, and a full suite of software solutions. The company integrates its hardware products with its software and services offerings. IBM earned $5.81 per share (vs. $5.41 est.) on $24.1 billion of sales (vs. $24.8 billion est.) in the fourth quarter, and the share price has extended its slump as core segments of the firm struggle to produce revenue growth. Nonetheless, we like the company's continued push to transform itself, focusing on higher value offerings, with aggressive investments in emerging technologies and markets (including Smarter Planet, Cloud and Business Analytics growth initiatives). A product that could help turn the tide, IBM recently introduced its z13 mainframe computer that is built on five years of R&D, collaboration with 60 clients and over $1 billion invested. The mainframe is powerful enough to handle 2.5 billion transactions per day with 100% uptime and 100% utilization. CFO Martin Schroeter updated IBM's outlook of $15.75 to $16.50 per share of operating EPS in 2015, putting the current valuation at less than 10 times that target. The company continues to be an aggressive returner of capital to shareholders via buybacks, while the stock currently sports a 2.9% dividend yield.

MDC Holdings (MDC)

MDC Holdings is a builder and seller of homes with operations in 11 states (including California, Colorado, Maryland, Virginia, Arizona, Florida, Utah, Washington and Nevada) under the name Richmond American Homes, and also is an originator of mortgage loans and title agency services primarily to its home buyers. MDC had adjusted Q4 earnings per share of $0.41 on $506 million in revenue, versus the $0.45 and $496 million respective estimates. Despite overall weakness in the homebuilding industry, MDC increased its net orders by 20% year-over-year and reduced its long-term debt by more than $200 million. We believe MDC is well-positioned to benefit from continued improvements in consumer confidence and employment and the still historically low interest rate environment. MDC sports a solid backlog of business, a broad geographic footprint, successful cost control initiatives and a solid balance sheet with more than $850 million in liquidity that the company continues to smartly tap as it acquires land in attractive markets across the country. We also like the 4.0% dividend yield.

Pfizer (PFE)

Pfizer is a global pharma company organized into two commercial segments: Biopharmaceutical and Diversified. The Biopharma segment is focused on discovering, developing and marketing drugs for cardiovascular, metabolic, central nervous system, immunology, pain, infectious diseases, respiratory, oncology and other indications. The Diversified segment includes the consumer products division, which though smaller in size provides nice cash flow. While PFE shares have essentially gone nowhere for the last 20 months, we continue to like the evolving drug pipeline, particularly after the Merck KGaA partnership, and the potential for upside from capital allocation, business development and management's exploration of a longer-term split-up of the company. Q4 revenue and earnings topped analyst expectations, while management sees 2015 earnings of $2.00 to $2.10 per share. Backed by a solid balance sheet and strong free cash flow generation, management has sufficient financial flexibility to invest in growth and return capital to shareholders. PFE shares currently offer an attractive 3.5% yield.

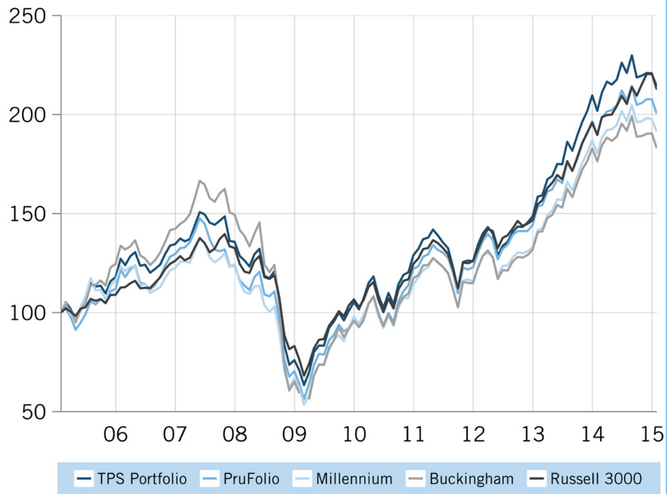
AT&T (T)

AT&T is a telecommunications company that provides telephone, television, internet and wireless service across the country. The company maintains a high-speed LTE network for mobile devices that covers 300 million people, a broadband service with 57 million customer locations and about three quarters of a million fiber internet business locations. T earned $0.55 per share last quarter on $34.4 billion in revenue, both slightly ahead of consensus estimates. Recently, AT&T spent $18 billion to acquire AWS-3 spectrum rights in almost all of the major cities in the country, which will give its customers faster download speeds and ease the network congestion, particularly in the crowded Northeast. Additionally, T purchased DirecTV in 2014 to help it increase its pay-TV market share, give it approximately 18 million customers in Latin America and, most importantly, land rights to NFL Sunday Ticket. The NFL rights were so important that it is likely that the entire $48.5 billion deal would have fallen through if the rights weren't renewed by DirecTV. In addition to its strategic spending, we like that T continues to distribute cash to holders via buybacks and dividends, with the yield having just been bumped up to 5.5%.

Tidewater (TDW)

With more than 275 vessels and another 30 under construction, Tidewater is the world's largest provider of supply vessels and marine support services to the worldwide petroleum drilling industry. TDW provides towing, transport and barge services around the globe. While the rapid and steep drop in energy prices creates a difficult operating environment, we believe the firm will inevitably realize an operating boost from its ongoing program to modernize its fleet via newbuilds and acquisitions. As this program slows, we see opportunity for the firm to use cash currently allocated to capital expenditures to further strengthen its balance sheet, as well as to return capital to shareholders through increased dividends and share repurchases. Additionally, we like that TDW is more geared to international markets, where there is seemingly more demand stability for its services than is currently available in North America. TDW currently yields 3.2% and the stock trades well below tangible book value per share and for less than 9 times forward earnings projections.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jan	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	-3.96	-3.96	3.74	14.22	14.60	6.23
Millennium	-3.15	-3.15	6.05	16.10	15.16	6.71
PruFolio	-3.52	-3.52	5.60	15.42	16.35	7.20
TPS	-3.76	-3.76	5.29	16.51	15.90	7.83
Major Indexes						
Russell 3000	-2.78	-2.78	12.99	17.44	15.83	7.92
S&P 500	-3.00	-3.00	14.22	17.46	15.59	7.61
Dow Jones Industrial Avg	-3.58	-3.58	11.91	13.56	14.16	7.80

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.32	9.66	Russell 3000
Millennium	12.31.99	9.54	4.60	Russell 3000
PruFolio	12.29.00	13.78	5.50	Russell 3000
TPS	03.10.77	18.32	10.96	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,828 stock recommendations have returned, on average, an annualized 17.29%, not including dividends.

As of 01.31.15. 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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