

# the Prudent Speculator 581

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While Mark Twain said, “History doesn’t repeat, but it does rhyme,” Yogi Berra’s, “It’s déjà vu all over again,” really does seem a more apt way to sum up what we’ve witnessed in the U.S. equity markets in 2015. After all, it was just one year ago that stocks enjoyed a terrific bounceback in the second month of the year, following a sizable first-month selloff. In 2014, our benchmark Russell 3000 index declined 3.2% in January (due to emerging economy capital and currency fears, Fed Tapering worries and concerns about the health of the domestic economy) before advancing 4.7% in February (even as Q4 2013 corporate sales and earnings reports left a lot to be desired).

Fast forward to 2015 and we again had a January swoon, with the broad-based S&P 500 index sinking 3.0%. This time around, the blame was assigned to fears about geopolitical events (Greece, Russia and ISIS/ISIL the primary culprits), concerns about the health of the global economy (China’s growth has been subpar and plunging commodity prices have dragged inflation rates to uncomfortably low levels), worries about a less-accommodative monetary stance from Janet Yellen & Co. (the Fed will eventually cease being “patient” in waiting to hike interest rates), and question marks about domestic economic data (Q4 U.S. GDP growth came in below expectations).

Certainly, we would not have been surprised had stocks suffered further setbacks, especially as Fall 2011 marked the last real market correction, but our constant admonition that the only problem with market timing is getting the timing right was quickly validated as February 2015 enjoyed a stellar recovery. Indeed, the S&P 500 jumped 5.7% last month, despite heightened consternation about profit growth this year following Q4 2014 report cards from Corporate America. “Currency headwinds will impact near-term results,” was a phrase uttered by many an executive team, while the collapse of crude prices caused analysts to slash estimates for stocks in the oil patch.

Ignoring the short-term gyrations, we simply maintained our broadly diversified portfolios, as we have done through thick and thin for nearly four decades, secure in

the belief that our undervalued stocks will be rewarded in the fullness of time. As *The Prudent Speculator* celebrates its 38th anniversary this month, we never forget the words

that our founder Al Frank penned in the first edition of our publication on March 12, 1977: “Successful speculating is more a matter of character than mathematics, analysis or luck.”

To be sure, our faith in equities has been bolstered by an improving U.S. economy, accommodative global central bank policies, healthy corporate balance sheets supported by inexpensive borrowing costs, reasonable valuations in the context

of incredibly low interest rates and rising dividend payouts that provide yields which compare very favorably to those of competing investments. That doesn’t mean that stocks won’t remain a volatile asset class, but we like what legendary investor Warren Buffett said this past weekend in Berkshire Hathaway’s 2014 Letter to Shareholders:

*“Charlie and I have always considered a ‘bet’ on ever-rising U.S. prosperity to be very close to a sure thing. Indeed, who has ever benefited during the past 238 years by betting against America? If you compare our country’s present condition to that existing in 1776, you have to rub your eyes in wonder. In my lifetime alone, real per-capita U.S. output has sextupled. My parents could not have dreamed in 1930 of the world their son would see. Though the preachers of pessimism prattle endlessly about America’s problems, I’ve never seen one who wishes to emigrate (though I can think of a few for whom I would happily buy a one-way ticket). The dynamism embedded in our market economy will continue to work its magic. Gains won’t come in a smooth or uninterrupted manner; they never have. And we will regularly grumble about our government. But, most assuredly, America’s best days lie ahead.”*

“The fault, dear Brutus,  
is not in our stars,  
but in ourselves.”

—William Shakespeare



Chief Investment Officer  
Al Frank Asset Management (AFAM)

# Earnings Scorecard

Q4 Season

Though the plunge in commodity prices and the strong U.S. dollar contributed to a significant reduction in 2015 earnings estimates, investors were not overly concerned by fourth-quarter results, judging by the re-

cord highs reached by the major market averages in February. Corporate America turned in solid Q4 reports, on average, as data provider Bloomberg calculated that the percentage of companies in the S&P 500 that exceeded

Industry Group	Ticker	Company	12.14 Act EPS	12.13 Act EPS	12.14 Est EPS	TTM <sup>1</sup> EPS	NTM <sup>2</sup> Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Autos & Components	GT	Goodyear Tire & Rubber Co	0.59	0.74	0.58	2.82	2.93	9.1	18,138	17,069	-6%
Banks	BBT	BB&T	0.77	0.73	0.73	2.88	2.99	12.7	nmf	nmf	nmf
	CM	Canadian Imperial Bank	2.03	2.16	1.81	8.08	7.34	10.4	nmf	nmf	nmf
	JPM	JPMorgan Chase & Co	1.33	1.40	1.32	5.82	5.84	10.5	nmf	nmf	nmf
	KEY	KeyCorp	0.29	0.28	0.26	1.11	1.13	12.4	nmf	nmf	nmf
	NYCB	NY Community Bancorp	0.30	0.27	0.27	1.10	1.03	16.1	nmf	nmf	nmf
	ONB	Old National Bancorp	0.27	0.27	0.27	1.05	1.09	12.9	nmf	nmf	nmf
	PNC	PNC Financial Services	1.84	1.83	1.73	7.10	7.22	12.7	nmf	nmf	nmf
	WFC	Wells Fargo & Co	1.02	1.00	1.02	4.10	4.18	13.1	nmf	nmf	nmf
Capital Goods	CAT	Caterpillar	1.35	1.54	1.55	6.37	4.76	17.4	55,184	49,539	-10%
	DE	Deere & Co	1.12	1.81	0.83	7.93	5.20	17.4	34,796	27,188	-22%
	ETN	Eaton PLC	1.27	1.08	1.20	4.68	4.90	14.5	22,552	22,540	0%
	FLR	Fluor	1.41	1.01	1.10	4.50	4.50	12.9	21,532	23,028	7%
	GE	General Electric Co	0.56	0.53	0.55	1.66	1.74	15.0	147,811	153,802	4%
	TPC	Tutor Perini	0.56	0.68	0.71	2.20	2.47	9.4	4,492	5,130	14%
	TRN	Trinity Industries	0.86	0.72	0.83	3.87	4.31	7.8	6,170	6,858	11%
Commercial Services	MAN	ManpowerGroup	1.47	1.49	1.43	5.29	5.12	15.7	20,763	19,418	-6%
	WM	Waste Management	0.67	0.56	0.60	2.48	2.50	21.8	13,996	13,445	-4%
Consumer Dur & App	COH	Coach	0.72	1.06	0.66	2.52	1.85	23.6	4,494	4,134	-8%
	MDC	MDC Holdings	0.41	0.63	0.45	1.59	1.69	16.1	1,695	2,003	18%
	WHR	Whirlpool	3.52	2.97	3.19	11.38	14.57	14.6	19,872	23,716	19%
Consumer Services	IGT	Int'l Game Technology	0.19	0.25	0.25	1.04	0.96	18.5	1,968	1,890	-4%
	RCL	Royal Caribbean Cruises Ltd	0.32	0.23	0.42	3.39	4.78	16.0	8,074	8,552	6%
Diversified Financials	BK	Bank of New York Mellon	0.58	0.54	0.59	2.40	2.61	15.0	nmf	nmf	nmf
	COF	Capital One Financial	1.68	1.48	1.75	7.59	7.57	10.4	nmf	nmf	nmf
	GS	Goldman Sachs Group	4.61	5.13	4.36	17.30	17.40	10.9	nmf	nmf	nmf
Energy	APA	Apache	1.07	1.57	0.76	5.90	-1.52	nmf	13,552	8,007	-41%
	BHI	Baker Hughes	1.44	0.62	1.07	4.22	2.14	29.2	24,551	20,614	-16%
	BRS	Bristow Group	0.70	0.85	1.28	4.24	4.99	12.4	1,849	1,972	7%
	CHK	Chesapeake Energy	0.11	0.27	0.25	1.44	0.30	55.0	21,084	15,626	-26%
	DO	Diamond Offshore Drilling	0.72	0.96	0.66	3.13	2.13	14.3	2,815	2,577	-8%
	ESV	Enscoc PLC	1.68	1.56	1.37	6.37	4.25	5.8	4,811	4,305	-11%
	HAL	Halliburton Co	1.19	0.93	1.10	4.02	2.06	20.9	32,870	27,913	-15%
	HFC	HollyFrontier	0.12	0.31	0.30	2.78	3.15	14.0	19,764	11,553	-42%
	MRO	Marathon Oil	-0.13	0.60	0.02	2.21	-0.85	nmf	11,604	7,547	-35%
	SFL	Ship Finance Int'l Ltd	0.39	0.20	0.40	1.33	1.14	14.0	327	406	24%
	TDW	Tidewater	1.12	1.12	0.91	4.10	2.10	13.4	1,539	1,430	-7%
	XOM	Exxon Mobil	1.56	1.91	1.34	7.60	3.81	23.3	364,763	204,616	-44%
Food & Staples Retailing	WMT	Wal-Mart Stores	1.61	1.60	1.54	5.07	4.90	17.1	485,651	492,531	1%
Food Bev & Tobacco	ADM	Archer-Daniels-Midland Co	1.00	0.95	0.96	3.13	3.39	14.1	81,201	83,863	3%
	TSN	Tyson Foods	0.77	0.72	0.73	2.99	3.55	11.6	39,636	42,375	7%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.71	0.58	0.69	2.28	2.15	22.0	21,255	20,915	-2%
	AET	Aetna	1.22	1.34	1.23	6.68	7.18	13.9	58,003	62,882	8%
	BAX	Baxter Int'l	1.34	1.26	1.31	5.14	4.21	16.4	16,884	16,078	-5%
	CAH	Cardinal Health	1.20	0.90	1.10	4.04	4.62	19.0	93,928	102,016	9%
	MDT	Medtronic PLC	1.01	0.91	0.97	4.02	4.39	17.7	17,523	28,366	62%
	STJ	St Jude Medical	1.03	0.99	1.03	3.98	3.97	16.8	5,622	5,536	-2%
Household Products	KMB	Kimberly-Clark	1.35	1.44	1.36	5.93	5.73	19.1	20,891	18,900	-10%
Insurance	ALL	Allstate	1.72	1.70	1.69	5.42	5.75	12.3	nmf	nmf	nmf

As of 02.28.15. N/A=Not applicable. <sup>1</sup>Trailing 12-month. <sup>2</sup>Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

expectations was 68.4%, compared to 21.0% that trailed forecasts and 10.6% that met projections. By way of comparison, in Q4 2013, the Beat/Miss/Match figures were 66.0%/22.3%/11.7%. Our experience with the 97 stocks presented in the accompanying tables was not as strong, though 61.9% of the undervalued companies formerly recommended in these pages topped estimates.

As always, investors were heavily focused on the forward outlook and management teams were quite cautious in their guidance. As a result, Standard & Poor's presently projects that bottom-up operating earnings per share for the S&P 500 will now rise to \$118.92 in 2015, up just 5.3% from \$112.92 in 2014, but the current, arguably aggressive estimate for 2016 calls for a 14.2% increase to \$135.75. ■

Industry Group	Ticker	Company	12.14	12.13	12.14	TTM <sup>1</sup>	NTM <sup>2</sup> Est	NTM	LTM	NTM Est	Sales
			Act EPS	Act EPS	Est EPS	EPS	EPS	P/E	Sales	Sales	Growth
Insurance	AXS	Axis Capital Holdings Ltd	1.18	1.41	1.21	5.32	4.44	11.7	nmf	nmf	nmf
	MET	MetLife	1.38	1.37	1.34	5.74	5.86	8.7	nmf	nmf	nmf
	PRU	Prudential Financial	2.12	2.20	2.38	9.21	9.70	8.3	nmf	nmf	nmf
	TRV	Travelers Cos	3.07	2.68	2.54	10.56	9.48	11.3	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.15	0.37	0.14	0.68	0.65	20.2	10,239	9,314	-9%
	AGU	Agrium	0.77	0.87	0.60	5.92	7.77	14.9	16,042	16,628	4%
	AUY	Yamana Gold	-0.02	0.05	0.03	0.04	0.10	43.6	1,835	2,038	11%
	CE	Celanese	1.28	1.04	1.19	5.69	5.25	10.9	6,802	6,561	-4%
	FCX	Freeport-McMoRan	0.25	0.84	0.35	1.95	1.00	21.6	21,438	19,348	-10%
	MOS	Mosaic Co	0.87	0.36	0.86	2.65	3.43	15.5	9,056	10,189	13%
Media	NEM	Newmont Mining	0.17	0.33	0.12	1.09	1.20	21.9	7,292	8,104	11%
	CMCSA	Comcast	0.77	0.66	0.78	2.93	3.23	18.4	68,775	71,467	4%
	DIS	Walt Disney Co	1.27	1.04	1.07	4.55	5.03	20.7	49,895	53,166	7%
	AMGN	Amgen	2.12	0.84	2.05	7.45	9.29	17.0	20,063	20,951	4%
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	1.27	1.24	1.26	5.97	6.20	16.5	74,331	71,740	-3%
	LLY	Eli Lilly & Co	0.75	0.74	0.73	2.79	3.12	22.5	19,616	20,017	2%
	PFE	Pfizer	0.54	0.56	0.53	2.26	2.08	16.5	49,605	46,500	-6%
Real Estate	ANH	Anworth Mortgage Asset	0.14	0.07	0.13	0.45	0.51	10.3	nmf	nmf	nmf
	RYN	Rayonier	0.09	0.64	0.09	0.80	0.37	74.1	nmf	nmf	nmf
Retailing	KSS	Kohl's	1.83	1.56	1.80	4.26	4.57	16.2	19,023	19,419	2%
	PETS	PetMed Express	0.24	0.23	0.21	0.91	0.97	15.9	228	229	1%
	TGT	Target	1.50	1.30	1.46	3.52	4.47	17.2	73,939	74,138	0%
Semis & Cap Equipment	DIOD	Diodes	0.38	0.24	0.34	1.45	1.69	16.8	891	936	5%
	INTC	Intel	0.72	0.53	0.68	2.35	2.42	13.8	55,870	58,264	4%
	MRVL	Marvell Technology Group Ltd	0.17	0.22	0.24	0.87	0.99	16.2	3,707	3,608	-3%
	NVDA	NVIDIA	0.36	0.26	0.36	1.15	1.42	15.5	4,682	4,911	5%
Software & Services	AMSWA	American Software	0.10	0.09	0.09	0.29	0.42	23.2	101	119	17%
	ATVI	Activision Blizzard	0.49	0.76	0.88	0.68	1.19	19.6	4,409	4,431	0%
	CA	CA	0.49	0.52	0.60	1.73	2.45	13.3	4,347	4,200	-3%
	IBM	Int'l Business Machines	5.81	6.13	5.41	16.35	15.99	10.1	93,358	85,363	-9%
	MSFT	Microsoft	0.77	0.78	0.75	2.68	2.64	16.6	93,456	94,906	2%
	SYMC	Symantec	0.40	0.43	0.49	1.64	1.90	13.3	6,615	6,422	-3%
Technology Hardware	AAPL	Apple	3.06	2.07	2.60	7.42	8.61	14.9	199,800	226,831	14%
	AVX	AVX	0.23	0.19	0.21	0.97	0.89	16.0	1,389	1,362	-2%
	BHE	Benchmark Electronics	0.43	0.43	0.44	1.64	1.63	14.4	2,797	2,799	0%
	BRCD	Brocade Comm Systems	0.20	0.21	0.24	0.73	0.93	13.4	2,223	2,285	3%
	CSCO	Cisco Systems	0.48	0.43	0.51	1.85	2.20	13.4	48,083	49,710	3%
	GLW	Corning	0.45	0.29	0.38	1.53	1.55	15.8	9,715	10,574	9%
	IM	Ingram Micro	0.98	0.83	0.99	2.57	2.85	8.7	46,487	46,495	0%
	LXK	Lexmark Int'l	1.11	1.18	1.14	4.07	3.63	11.7	3,711	3,605	-3%
	QCOM	Qualcomm	1.21	0.63	1.25	4.80	4.98	14.6	26,964	27,324	1%
	STX	Seagate Technology PLC	1.35	1.32	1.35	5.13	5.00	12.2	14,188	14,443	2%
Telecom Services	T	AT&T	0.55	0.53	0.55	2.51	2.53	13.7	132,447	134,440	2%
Transportation	CSX	CSX	0.49	0.42	0.49	1.93	2.16	15.9	12,669	12,915	2%
	NM	Navios Maritime Holdings	-0.22	-0.18	-0.20	-0.50	-0.57	nmf	569	545	-4%
Utilities	NSC	Norfolk Southern	1.64	1.64	1.64	6.39	6.82	16.0	11,624	11,644	0%
	CWT	California Water Service	0.24	0.12	0.17	1.19	1.25	20.3	597	607	2%
	ETR	Entergy	0.75	1.00	0.81	5.83	5.39	14.8	12,495	12,891	3%

# 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 <sup>1</sup>	Company	Price	Target Price	Price Multiples			EV/ EBITDA <sup>3</sup>	Debt/ TE <sup>4</sup>	Div Yld	Mkt Cap
					EPS	Sales	TBV <sup>2</sup>				
Auto & Components	GT	Goodyear Tire & Rubber Co	26.73	43.95	9.5	0.4	2.5	5.7	217%	0.9%	7,205
Banks	CM	Canadian Imperial Bank	76.50	96.20	8.5	nmf	1.9	nmf	nmf	5.6%	30,385
	HSBC	HSBC Holdings PLC	44.62	58.15	10.3	nmf	1.1	nmf	nmf	5.6%	171,460
	ONB	Old National Bancorp	14.09	20.89	13.4	nmf	1.9	nmf	nmf	3.4%	1,688
Capital Goods	CAT	Caterpillar	82.90	106.64	13.0	0.9	7.2	6.4	398%	3.4%	50,251
	FLR	Fluor	58.00	80.76	12.9	0.4	2.9	5.2	33%	1.4%	8,572
	GE	General Electric Co	25.99	33.84	15.7	1.8	7.0	11.0	973%	3.5%	261,587
Consumer Dur & App	MDC	MDC Holdings	27.18	42.97	17.1	0.8	1.1	18.6	74%	3.7%	1,328
Diversified Financials	CS	Credit Suisse Group AG	24.34	40.79	10.9	1.0	1.1	nmf	504%	3.1%	39,118
Energy	APA	Apache	65.84	106.77	11.2	1.8	1.0	9.7	44%	1.5%	24,788
	E	Eni SpA	37.27	51.09	16.4	0.3	1.1	4.6	34%	5.6%	67,723
	ESV	Enesco PLC	24.47	43.11	3.8	1.2	0.7	7.4	55%	2.5%	5,732
	HAL	Halliburton Co	42.94	66.68	10.7	1.1	2.6	5.8	56%	1.7%	36,485
	HFC	HollyFrontier	43.99	54.09	15.8	0.4	2.5	6.9	29%	7.5%	8,607
	PGN	Paragon Offshore PLC	2.06	5.85	0.5	0.1	0.4	nmf	384%	0.0%	175
	RDS/A	Royal Dutch Shell PLC	65.37	88.25	8.2	0.2	1.1	5.3	23%	4.9%	210,517
	SFL	Ship Finance Int'l Ltd	16.01	19.91	12.0	4.6	1.3	14.9	114%	10.5%	1,493
	TDW	Tidewater	28.20	55.92	6.9	0.9	0.6	16.0	68%	3.5%	1,322
	TOT	Total SA	53.63	77.92	11.4	0.7	1.5	6.1	50%	4.3%	127,922
Food & Staples Retailing	WMT	Wal-Mart Stores	83.93	95.84	16.6	0.6	4.3	8.7	69%	2.3%	270,522
Food Bev & Tobacco	UUV	Universal	47.91	65.13	14.4	0.5	1.0	9.2	23%	4.3%	1,084
Health Care Equip/Srvcs	BAX	Baxter Int'l	69.15	95.07	13.5	2.2	19.7	11.7	427%	3.0%	37,520
Insurance	AXS	Axis Capital Holdings Ltd	51.83	66.78	9.7	nmf	1.0	nmf	nmf	2.2%	5,226
	PRU	Prudential Financial	80.85	110.15	8.8	nmf	nmf	nmf	nmf	2.9%	36,771
Materials	ABX	Barrick Gold	13.02	21.83	19.1	1.5	2.8	nmf	231%	1.5%	15,164
	AUY	Yamana Gold	4.27	8.15	nmf	2.7	0.8	nmf	32%	1.4%	4,004
	BHP	BHP Billiton Ltd	52.52	69.35	13.3	1.4	2.4	5.8	41%	4.7%	137,029
	CE	Celanese	57.11	87.27	10.0	1.3	4.5	10.3	135%	1.8%	8,733
	FCX	Freeport-McMoRan	21.63	40.26	11.1	1.0	1.2	11.6	101%	5.8%	22,492
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	102.51	116.07	17.2	3.8	13.8	10.9	73%	2.7%	285,028
	SNY	Sanofi	48.86	61.97	16.8	6.9	48.6	12.3	558%	3.3%	128,929
Real Estate	ANH	Anworth Mortgage Asset	5.23	6.43	11.6	nmf	0.8	nmf	nmf	10.7%	557
	BMR	BioMed Realty Trust	22.24	28.95	22.7	nmf	1.5	nmf	nmf	4.7%	4,531
Semis & Cap Equipment	INTC	Intel	33.25	41.90	14.1	2.8	3.8	6.3	29%	2.9%	157,472
Software & Services	IBM	Int'l Business Machines	161.94	227.32	9.9	1.7	nmf	8.8	nmf	2.7%	160,065
	MSFT	Microsoft	43.85	53.85	16.4	3.8	5.7	9.0	33%	2.8%	359,736
Technology Hardware	AVX	AVX	14.25	20.10	14.7	1.7	1.3	6.2	0%	2.9%	2,398
	JBL	Jabil Circuit	21.97	33.91	nmf	0.3	2.6	7.4	103%	1.5%	4,245
Telecom Services	T	AT&T	34.56	39.04	13.8	1.4	nmf	8.4	nmf	5.4%	179,372
Transportation	NM	Navios Maritime Holdings	4.35	8.00	nmf	0.8	0.5	nmf	177%	5.5%	454

As of 02.28.15. N/A=Not applicable. nmf=Not meaningful. <sup>1</sup>=First-time recommendation. <sup>2</sup>Tangible book value. <sup>3</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>4</sup>Tangible equity. SOURCE: AI Frank using data from Bloomberg



# Portfolio Builder

Research Team Favorites

**T**he *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

Still holding modest amounts of cash in our newsletter portfolios, we will buy \$10,000 of **Fluor** and **Universal Corp** for Millennium Portfolio, while we will pick up \$6,000 of **Jabil Circuit** and **Old National Bancorp** for Buckingham Portfolio. In PruFolio, we will raise the ownership in **Barrick Gold**, **Enesco PLC** and **Navios Maritime** to \$20,000. As is our custom, we will wait four trading days until March 9 to transact. Sufficient stakes in **BioMed Realty**, **Celanese** and **Intel** are already held in each newsletter portfolio, so no need for additional purchases.

## NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ABX	Barrick Gold	Materials	13.02	21.83
BMR	BioMed Realty Trust	Financials	22.24	28.95
CE	Celanese	Materials	57.11	87.27
ESV	Enesco PLC	Energy	24.47	43.11
FLR	Fluor	Industrials	58.00	80.76
INTC	Intel	Information Technology	33.25	41.90
JBL	Jabil Circuit	Information Technology	21.97	33.91
NM	Navios Maritime	Industrials	4.35	8.00
ONB	Old National Bancorp	Financials	14.09	20.89
UVV	Universal Corp	Consumer Staples	47.91	65.13

As of 02.28.15. SOURCE: AI Frank using data from Bloomberg

## Barrick Gold (ABX)

Barrick Gold is a gold mining company, operating and developing projects in the U.S., Canada, South America, Australia and Africa. Despite weakness in gold prices, Barrick beat Q4 analyst estimates by a penny, earning \$0.15 per share on sales of \$2.5 billion. ABX was helped by the successful introduction of a highly advanced gold processing technology and a record-best safety year. In 2015, the company expects over half of production to come from mines with all-in costs below \$716 per ounce. Co-President Jim Gowans said, "We recently reported 2014 reserves of 93 million ounces, with an average reserve grade of 1.37 grams per tonne. Our pursuit will be focused on our best regions, regions that have proven gold-rich districts, where we have a competitive advantage through our experience and expertise, as well as established partnerships with governments and communities and where there is existing infrastructure, supplier relationships and all the key components that help build a critical mass." We like that ABX proactively restructured a large portion of its debt and that it is keeping mining costs under control. Additionally, we believe that a joint venture in Saudi Arabia to dig for copper at the Jabal Sayid mine will be a profitable undertaking when it is operational in 2016.

## BioMed Realty Trust (BMR)

BMR is a REIT that owns, leases, manages and develops commercial spaces for life sciences tenants. BioMed currently owns or has interest in a portfolio of more than 18

million rentable square feet located primarily in the U.S., with stabilized occupancy rates above 90%. We believe the leasing side of the business will continue to benefit from favorable demographic trends and innovation within the life sciences industry. Additionally, we are encouraged by the relatively easy access to funding available to BMR's current and prospective clients. BioMed recently reported core funds from operations of \$0.36 per share for Q4, and projected 2015 core funds from operations of between \$1.39 to \$1.49. We like the continued efforts to increase the important academic research space and its recently announced internal realignment that included shifts within management personnel to help sharpen its core business focus. We see BMR as a unique way to access the health-care space, especially the often more volatile and pricey biotech segment. BioMed yields 4.7%.

### **Celanese (CE)**

Celanese is a global producer of value-added industrial chemicals with a leading market position in products that comprise the vast majority of its sales. CE is one of the world's largest producers of acetals and a top producer of polymers used in auto, consumer and industrial products. The company's sales are almost equally divided between North America, Europe and Asia. We like that Celanese possesses proprietary technology that allows it to produce acetic acid at a lower cost than most of its competitors. We believe that CE can generate attractive revenue growth from further geographic expansion and new application development. Also, we are partial to its ongoing productivity initiatives, financing actions undertaken to strengthen the balance sheet and solid free cash flow generation that can support further share repurchases and dividend increases. Management is projecting adjusted earnings per share between \$5.00 and \$5.50 for 2015. Shares are trading at 11 times forward earnings estimates and have a current dividend yield of 1.8%.

### **Enco PLC (ESV)**

Enco is one of the world's largest offshore oil and gas drillers, operating across six continents with one of the newest jackup and deepwater fleets in the contract drilling industry. In recent operating periods, including its expectation-beating results for Q4, ESV has had to battle a number of industry headwinds, such as plummeting rig day rates, potential cancellations of contracts from national oil companies and concerns about significant rig supply coming online in the next few years. Given the dif-

icult operating environment, the board recently decided to slash the firm's robust dividend to improve near-term capital management flexibility. ESV shares now yield 2.5%. Although the operating environment will no doubt remain challenging, we think that Enco is making tough short-term decisions that will prove fruitful for long-term investors. The firm still has a healthy backlog, solid balance sheet and strong reputation that should be beneficial in trying to win new projects in this highly competitive environment. ESV shares are currently trading at less than 6 times forward earnings estimates.

### **Fluor (FLR)**

Fluor is a global engineering and construction company that provides engineering, procurement, construction, operations, maintenance and project management services. FLR has an extended history of constructing and designing large complex projects for a variety of public and private customers. Its operations are contract driven and are diversified by both geography and business mix. FLR has a backlog of \$42.5 billion (the oil & gas segment presently accounts for more than 65%) and seems to have good visibility regarding additional revenue potential. About 81% of its current backlog is made up of cost-plus contracts, which should reduce execution risk. We continue to be fans not only of Fluor's strong backlog, but also its solid balance sheet, which includes cash and marketable securities of more than \$2 billion. Netting out long-term debt, FLR has almost \$7.50 per share of cash. For Q4, the firm delivered earnings that were more than 25% above analyst expectations, and management forecasts 2015 per share profits between \$4.40 and \$5.00. With the company also implementing a plan to repurchase \$1 billion of its shares, we remain fans of high-quality Fluor.

### **Intel (INTC)**

Intel, the leading global semiconductor manufacturer, supplies advanced technology solutions for the computing industry, including microprocessors, chipsets and motherboards. The firm posted Q4 earnings per share of \$0.74, topping expectations of \$0.66, and sales of \$14.7 billion. CEO Brian Krzanich said, "Intel is in a very different place today than we were just 12 months ago. We are participating in a broader range of devices, and we are innovating in emerging segments. These are the trends we will build on in 2015, bringing us closer to our vision that if it's smart and connected, it is best with Intel. Our work isn't done, but our progress against our imperatives

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leaves us increasingly confident in our strategy.” We expect to see some additional emphasis on the PC business, as there seems to be some resurgence in demand there, although the company will maintain focus on mobility and data center products. We are also encouraged by the strong momentum Intel is gaining in its Internet of Things group. We like that Intel has a diversified revenue stream, low levels of debt and a 2.9% dividend yield.

### **Jabil Circuit (JBL)**

Jabil Circuit is an electronic manufacturing services provider that specializes in circuit boards for a variety of uses around the world. The latest quarter was solid as Jabil earned \$0.55 per share versus estimates of \$0.47. CEO Mark Mondello said, “Our team delivered \$181 million of core operating income on revenue of \$4.55 billion, resulting in core operating margins of 4%. These results reflect strong demand within our Diversified Manufacturing Services segment, as well as solid execution and performance across the entire business.” We believe the cash will help improve its long-term financial position as it aims to grow subsidiaries Green Point (mobility, consumer lifestyles and wearables) and Nypro (healthcare and packaging), in addition to its circuit board business. Jabil also makes casings for Apple’s new iPhones. We like that the company returned more than \$45 million via stock buybacks and \$17 million in dividends in the last quarter. Also, JBL sports a low forward P/E ratio (less than 11), an improving balance sheet and a 1.5% dividend yield.

### **Navios Maritime (NM)**

Navios is a global shipping and logistics company focused on the transport of dry bulk commodities. NM shares have been hit hard by the plunge in commodities and concerns about the likelihood of increased capacity, which have pushed day rates down to their lowest levels in 30 years. While conditions won’t improve overnight, we strongly believe that the selloff is overdone. We like that the company has decreased its daily cash breakeven level to mitigate the impact of low rates. We also are happy that the firm has decent contract coverage for its core fleet and ample dividend support from its affiliated publicly traded companies. Navios owns 20.1% of Navios Maritime Partners and 46.2% of Navios Maritime Acquisition (combined value of \$4.50 per NM share), with NM expected to receive more than \$48 million in dividend payouts from the pair over the next 12 months, easily covering the \$25 million (\$0.24 per share = a yield of 5.3%) in annual dividends.

Finally, we like the majority ownership stake in a lucrative South American logistics provider, an entity poised to capitalize on that region’s long-term expansion and the resulting increase in import/export activity.

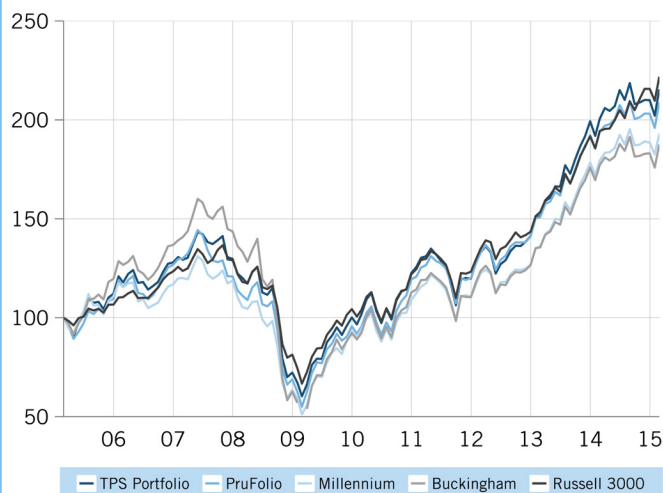
### **Old National Bank (ONB)**

With \$11.6 billion in assets and headquarters in Evansville, Indiana, ONB owns multiple financial services operations in Indiana, Illinois, Kentucky and Michigan. The company provides commercial and retail banking, trust, brokerage, correspondent banking and insurance services. We view Old National as a quality bank whose management balances a conservative culture with aspirations for growth. While organic growth hasn’t been easy to come by, we were encouraged to see progress on this front in banking, wealth management and insurance during Q4. We are positive on the strategic nature of recent acquisitions in higher growth markets like Ann Arbor and Grand Rapids, Michigan, and Lafayette, Indiana. ONB also recently announced the repurchase of a total of 1 million shares of its stock during March and April. Trading at less than 13 times forward earnings projections, sporting a 3.4% dividend yield and owning solid capital ratios, we are fans of small-cap ONB.

### **Universal Corp (UVV)**

Universal is an independent tobacco leaf merchant with a global footprint, garnering almost 85% of its revenue from outside the United States. UVV procures, processes and sells flue-cured and burley tobaccos to manufacturers of consumer tobacco products. In addition to traditional tobacco products, Universal also manufactures liquid nicotine for e-cigarettes and grows sweet potatoes for human consumption in rotation with tobacco plants. CEO George Freeman recently stated, “Our balance sheet remains strong, and our major refinancing in December ensures that we are well-positioned to meet the future financial needs of our business. We are optimistic about the prospects for our industry, and we continue to see opportunities to enhance our business by providing supply chain efficiencies, such as improved leaf utilization, that also bring value to our customers.” The current outlook for 2015 crops, which impacts fiscal year 2016 (ends 3/16) results, indicates decreased production volumes in key growing areas, an important step towards more balanced markets. That in mind, we look for earnings growth to resume soon. In the interim, we find the current P/E ratio of 14.4 and the dividend yield of 4.3% to be attractive. ■

## NEWSLETTER PORTFOLIO PERFORMANCE



	Feb	YTD	1-Year	3-Year	5-Year	10-Year
<b>Newsletter Portfolios</b>						
Buckingham	6.63	2.42	5.83	14.88	15.23	6.49
Millennium	5.69	2.36	7.49	16.29	15.41	6.80
PruFolio	6.54	2.78	7.61	16.17	16.93	7.64
TPS	6.61	2.61	7.43	17.42	16.18	7.98
<b>Major Indexes</b>						
Russell 3000	5.79	2.84	14.12	18.02	16.36	8.29
S&P 500	5.75	2.57	15.50	17.99	16.18	7.99
Dow Jones Industrial Avg	6.01	2.22	13.70	14.70	14.83	8.12

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.83	10.10	Russell 3000
Millennium	12.31.99	9.89	4.96	Russell 3000
PruFolio	12.29.00	14.21	5.89	Russell 3000
TPS	03.10.77	18.48	11.10	S&P 500 <sup>1</sup>

Since *The Prudent Speculator's* launch in March 1977, its 1,830 stock recommendations have returned, on average, an annualized 17.39%, not including dividends.

As of 02.28.15. 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. <sup>1</sup>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 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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