

the Prudent Speculator 584

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Stocks Droop, Closing Out a Weak Month was the headline of the *Friday's Markets* column in the May 30/31 edition of *The Wall Street Journal*. Though we suppose that the publication might contend that the *Weak Month* reference was related to sluggish trading (shares changed hands at the slowest pace in six months) and extremely low volatility (the CBOE Volatility Index hit a new post-Financial-Crisis nadir), we would argue that the editors of America's most-read financial publication somehow failed basic arithmetic. Indeed, the S&P 500 advanced 1.3%, while the Dow Jones Industrial Average and our benchmark Russell 3000 index each climbed 1.4% during May.

We suspect that some may find those one-month tallies to be unimpressive, even as they are near what an investor today in a 5-year U.S. Treasury bond would receive in interest for a full 12 months. And viewed another way, those who have their dollars parked in Money Market Funds, where according to iMoneyNet the average annual yield is 0.02%, would need 64 to 68 years (yes, years!) to see their money earn a total return of 1.3% to 1.4%, assuming that microscopic interest rate was maintained throughout. Obviously, the miracle of compounding works better when the figures are bigger, but annualizing May's performance would result in full-year gains of 16.6% for the S&P and 17.9% for both the Dow and the R3K.

To help put those numbers into perspective, consider that in early-May, Pablo Picasso's 1955 oil on canvas, *Les Femmes d'Alger (Version "O")*, sold for an all-time art-market record price of \$179.4 million, or \$160 million net of the hefty commission to the Christie's auction house. The seller had paid \$31.9 million in November 1997, buying the painting from the collection of Victor and Sally Ganz who had the foresight to acquire numerous Picasso works of art in 1956 for a few hundred thousand dollars.

Ignoring the costs of insuring, displaying, storing, transporting, cleaning and conserving, and not factoring in the value and prestige garnered from the joy of ownership, the return on the 1997 *Les Femmes* investment worked out to *only* 9.5% per annum over 17.5 years. And,

believe it or not, an academic study (*Winning The Art Lottery: The Economic Returns to The Ganz Collection*) by University of Chicago Law School Professor William M.

Landes, showed that the couple made *just* 11.6% per annum on their 16 Picasso paintings, including the \$31.9 million home run, that were sold in 1997. Mr. Landes's calculations show that the Ganz's double-digit percentage return was above an estimated 9.2% return on art over a similar holding period, while he states that auction data going back 350 years suggests that returns were "far below" the Ganz's return.

To be sure, both *Les Femmes* returns on investment are very good, but they modestly trail the 10.1% and 12.2% returns that have been the respective geometric means for Large-Cap and Small-Cap stocks from 1926-2014, per data published in Morningstar's *Ibbotson SBBI 2015 Classic Yearbook*. Long-time readers are likely well aware that the Ibbotson compilation of *Market Results for Stocks, Bonds, Bills, and Inflation* is always kept within arm's reach, as it provides plenty of perspective that resonates in good times and bad.

Indeed, given that equities are overdue for a decent-sized pullback or correction, with the potential catalyst for said event in the eyes of the bearish pundits seemingly changing every week—Russia, China, Greece, poor U.S. economic growth, strong dollar, Fed raising rates—Ibbotson offers the constant reminder for those who share our long-term time horizon that Large-Cap stocks have enjoyed positive returns in 73 out of 85 (86%) rolling 5-year periods and 76 out of 80 (95%) rolling 10-year periods. Of course, these days our conviction is also boosted by the low interest rate environment, an accommodative Federal Reserve, healthy corporate balance sheets, favorable dividend yields and reasonable valuations of our holdings.

"He who can give
thanks for little
will always find he
has enough."
—Anonymous



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q1 Season

The strong U.S. dollar and harsh winter weather contributed to a subdued first quarter earnings season, though investors took the lackluster profit growth in stride as the major market averages hit new highs in May.

Although Standard & Poor's calculates that Q1 bottom-up operating EPS for the S&P 500 declined by 5.5%, Corporate America turned in decent Q1 reports as data provider Bloomberg stated that the percentage of companies in the

Industry Group	Ticker	Company	03.15 Act EPS	03.14 Act EPS	03.15 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Autos & Components	GT	Goodyear Tire & Rubber	0.54	0.56	0.44	2.80	3.20	10.0	17,693	16,602	-6%
	HMC	Honda Motor Co Ltd	0.46	0.92	0.62	2.68	2.75	12.4	115,619	117,291	1%
Banks	BBT	BB&T	0.68	0.70	0.70	2.86	2.97	13.3	nmf	nmf	nmf
	CM	Canadian Imperial Bank	1.83	1.96	1.81	7.94	7.45	10.2	nmf	nmf	nmf
	JPM	JPMorgan Chase	1.61	1.28	1.41	6.15	6.00	11.0	nmf	nmf	nmf
	KEY	KeyCorp	0.27	0.27	0.27	1.11	1.10	13.3	nmf	nmf	nmf
	NYCB	NY Community Bancorp	0.27	0.26	0.26	1.07	1.02	17.4	nmf	nmf	nmf
	ONB	Old National Bancorp	0.24	0.28	0.25	0.99	1.06	12.9	nmf	nmf	nmf
	PNC	PNC Financial Services	1.75	1.75	1.72	7.10	7.16	13.4	nmf	nmf	nmf
Capital Goods	WFC	Wells Fargo	1.04	1.05	0.98	4.09	4.18	13.4	nmf	nmf	nmf
	CAT	Caterpillar	1.72	1.61	1.35	6.48	4.26	20.0	54,645	48,321	-12%
	DE	Deere	2.03	2.65	1.56	7.31	5.05	18.6	33,019	26,117	-21%
	ETN	Eaton PLC	1.01	1.01	0.98	4.68	4.86	14.7	22,283	22,129	-1%
	FLR	Fluor	0.96	0.92	0.98	4.54	4.56	12.3	20,696	20,791	0%
	GE	General Electric	0.31	0.33	0.30	1.64	1.45	18.8	143,043	127,158	-11%
	TPC	Tutor Perini	0.10	0.33	0.24	1.97	2.61	8.0	4,604	5,180	13%
Commercial Services	TRN	Trinity Industries	1.07	1.10	0.96	3.84	4.30	7.0	6,336	7,040	11%
	MAN	ManpowerGroup	0.83	0.86	0.79	5.26	5.24	16.2	20,401	19,320	-5%
Consumer Dur & App	WM	Waste Management	0.45	0.49	0.48	2.44	2.56	19.4	13,640	13,254	-3%
	COH	Coach	0.36	0.68	0.35	2.20	1.88	18.8	4,324	4,161	-4%
Consumer Services	MDC	MDC Holdings	0.17	0.35	0.16	1.41	1.84	15.2	1,755	2,218	26%
	WHR	Whirlpool	2.14	2.20	2.37	11.32	13.14	14.0	20,355	22,017	8%
	RCL	Royal Caribbean Cruises Ltd	0.20	0.21	0.14	3.38	4.74	16.0	8,002	8,544	7%
Diversified Financials	BK	Bank of New York Mellon	0.67	0.56	0.59	2.51	2.76	15.7	nmf	nmf	nmf
	COF	Capital One Financial	1.97	1.91	1.87	7.65	7.71	10.8	nmf	nmf	nmf
	CS	Credit Suisse Group AG	0.77	0.80	0.75	2.42	2.40	11.0	nmf	nmf	nmf
	GS	Goldman Sachs Group	6.00	4.02	4.26	19.28	18.55	11.1	40,993	35,212	-14%
Energy	APA	Apache	-0.37	1.78	-0.60	3.75	-0.20	nmf	11,770	7,827	-33%
	BHI	Baker Hughes	-0.07	0.84	0.46	3.31	0.28	nmf	23,414	15,472	-34%
	BRS	Bristow Group	0.91	1.35	1.24	3.80	4.49	12.9	1,859	1,967	6%
	CHK	Chesapeake Energy	0.11	0.59	0.04	0.96	-0.29	nmf	17,401	12,043	-31%
	DO	Diamond Offshore Drilling	0.50	0.93	0.42	2.70	1.69	18.0	2,725	2,302	-16%
	E	Eni SpA	0.40	0.90	0.28	2.23	1.00	35.9	132,667	79,910	-40%
	ESV	Enesco PLC	1.49	1.24	1.29	6.62	3.33	7.0	4,788	3,933	-18%
	HAL	Halliburton	0.49	0.73	0.36	3.78	1.25	36.4	32,572	24,388	-25%
	HFC	HollyFrontier	1.16	0.79	0.78	3.15	3.54	11.8	17,980	13,077	-27%
	MRO	Marathon Oil	-0.37	0.88	-0.45	0.96	-0.76	nmf	9,709	6,997	-28%
	TDW	Tidewater	0.50	0.88	0.54	3.72	1.42	17.2	1,496	1,382	-8%
	TNP	Tsakos Energy Navigation Ltd	0.42	0.19	0.38	0.67	1.21	7.9	520	440	-15%
	TOT	Total SA	1.13	1.46	0.91	5.30	3.53	14.3	194,126	164,105	-15%
XOM	Exxon Mobil	1.17	2.10	0.83	6.67	4.33	19.7	329,647	264,124	-20%	
Food & Staples Retailing	WMT	Wal-Mart Stores	1.03	1.10	1.05	5.00	4.83	15.4	485,517	492,880	2%
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	0.77	0.55	0.71	3.35	3.40	15.6	78,011	81,227	4%
	TSN	Tyson Foods	0.75	0.60	0.72	3.14	3.66	11.6	40,583	41,440	2%
Health Care Equip\Srvcs	ABT	Abbott Laboratories	0.47	0.41	0.44	2.34	2.19	22.2	20,908	20,994	0%
	AET	Aetna	2.39	1.98	1.95	7.09	7.42	15.9	59,103	62,557	6%
	BAX	Baxter Int'l	1.00	1.19	0.88	4.95	3.93	16.9	16,697	15,751	-6%
	CAH	Cardinal Health	1.19	1.01	1.16	4.22	4.74	18.6	97,876	105,653	8%
Household Products	KMB	Kimberly-Clark	1.42	1.48	1.33	5.87	5.85	18.6	20,304	18,914	-7%

As of 05.31.15. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

S&P 500 that exceeded expectations was 67.6%, compared to 22.6% that trailed forecasts and 9.8% that met projections. By way of comparison, in Q1 2014, the Beat/Miss/Match figures were 70.4%/20.5%/9.1%. Our experience with the 98 stocks presented in the accompanying tables was similar as 69.4% of the undervalued companies formerly recommended in these pages topped estimates.

As always, investors were heavily focused on the forward outlook and management teams remained 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 \$116.03 in 2015, up just 2.7% from \$113.01 in 2014, but the current, admittedly aggressive estimate for 2016 calls for a 14.6% jump to \$133.00. ■

Industry Group	Ticker	Company	03.15 Act EPS	03.14 Act EPS	03.15 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Insurance	ALL	Allstate	1.46	1.30	1.44	5.58	5.58	12.1	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	1.35	1.24	1.23	5.43	4.30	12.8	nmf	nmf	nmf
	MET	MetLife	1.44	1.37	1.41	5.81	5.96	8.8	nmf	nmf	nmf
	PRU	Prudential Financial	2.79	2.40	2.39	9.60	9.95	8.5	nmf	nmf	nmf
	TRV	Travelers Cos	2.53	2.95	2.52	10.14	9.30	10.9	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.05	0.20	0.09	0.53	0.62	19.3	9,852	9,838	0%
	AGU	Agrium	0.12	0.07	0.33	5.97	7.91	13.1	15,835	16,665	5%
	CE	Celanese	1.72	1.33	1.32	6.08	5.62	12.3	6,547	6,144	-6%
	FCX	Freeport-McMoRan	-0.06	0.48	-0.05	1.41	1.13	17.4	20,606	19,457	-6%
	MOS	Mosaic	0.70	0.52	0.74	2.83	3.42	13.4	9,209	9,879	7%
Media	NEM	Newmont Mining	0.46	0.22	0.22	1.33	1.11	24.5	7,500	7,953	6%
	CMCSA	Comcast	0.79	0.68	0.74	3.04	3.37	17.4	69,220	73,711	6%
	DIS	Walt Disney	1.23	1.11	1.10	4.67	5.37	20.5	50,707	54,648	8%
Pharma/Biotech/Life Sci	AMGN	Amgen	2.11	1.71	2.10	7.85	9.61	16.3	20,575	21,582	5%
	GILD	Gilead Sciences	2.76	1.45	2.32	9.12	10.96	10.2	27,485	30,317	10%
	JNJ	Johnson & Johnson	1.56	1.54	1.53	5.99	6.17	16.2	73,590	70,689	-4%
	PFE	Pfizer	0.39	0.57	0.50	1.69	2.12	16.4	49,116	47,205	-4%
	SNY	Sanofi	0.74	0.80	0.64	3.39	3.07	16.1	45,313	40,550	-11%
Real Estate	ANH	Anworth Mortgage Asset	0.15	0.09	0.13	0.51	0.55	9.5	nmf	nmf	nmf
Retailing	AEO	American Eagle Outfitters	0.15	0.02	0.12	0.76	0.97	16.9	3,336	3,472	4%
	FL	Foot Locker	1.29	1.11	1.23	3.76	4.10	15.4	7,199	7,431	3%
	KSS	Kohl's	0.63	0.60	0.55	4.29	4.61	14.2	19,076	19,466	2%
	PETS	PetMed Express	0.25	0.23	0.25	0.93	0.99	16.9	229	234	2%
	SPLS	Staples	0.17	0.18	0.17	0.97	0.94	17.5	22,100	21,549	-2%
	TGT	Target	1.10	0.70	1.02	3.92	4.65	17.1	74,008	74,742	1%
	Semis & Cap Equipment	DIOD	Diodes	0.26	0.26	0.25	1.45	1.56	17.0	887	920
	INTC	Intel	0.43	0.41	0.43	2.37	2.31	15.0	55,887	56,631	1%
	MRVL	Marvell Technology Group Ltd	0.08	0.20	0.10	0.75	0.63	22.1	3,473	3,137	-10%
	NVDA	Nvidia	0.25	0.24	0.34	1.16	1.10	20.1	4,730	4,396	-7%
Software & Services	ATVI	Activision Blizzard	0.53	0.17	0.07	1.04	1.26	20.1	4,576	4,530	-1%
	CA	CA	0.33	0.23	0.50	1.83	2.42	12.6	4,262	3,979	-7%
	IBM	Int'l Business Machines	2.91	2.54	2.81	16.72	16.10	10.5	90,464	83,219	-8%
	MSFT	Microsoft	0.62	0.68	0.53	2.62	2.66	17.6	94,782	94,006	-1%
	SYMC	Symantec	0.36	0.42	0.44	1.61	1.87	13.2	6,508	6,284	-3%
Technology Hardware	AAPL	Apple	2.33	1.66	2.16	8.09	9.18	14.2	212,164	235,924	11%
	AVX	AVX	0.20	0.23	0.21	0.94	0.79	18.0	1,353	1,252	-7%
	BHE	Benchmark Electronics	0.34	0.35	0.33	1.63	1.67	13.9	2,779	2,722	-2%
	BRCD	Brocade Comm Systems	0.19	0.15	0.20	0.77	0.96	12.9	2,233	2,267	2%
	CSCO	Cisco Systems	0.46	0.46	0.53	1.85	2.24	13.1	48,675	50,478	4%
	ERIC	LM Ericsson	0.10	0.14	0.12	0.62	0.69	16.2	32,197	27,443	-15%
	GLW	Corning	0.35	0.31	0.34	1.57	1.55	13.5	9,691	10,349	7%
	IM	Ingram Micro	0.43	0.43	0.44	2.57	2.94	9.1	46,748	47,016	1%
	LXK	Lexmark Int'l	0.81	0.92	0.76	3.96	3.69	12.5	3,685	3,599	-2%
	QCOM	Qualcomm	1.03	1.14	1.34	4.69	4.61	15.1	27,491	25,331	-8%
	STX	Seagate Technology PLC	1.08	1.34	1.04	4.87	4.88	11.4	14,112	13,919	-1%
Telecom Services	T	AT&T	0.63	0.71	0.62	2.43	2.55	13.5	132,547	136,974	3%
Transportation	CSX	CSX	0.45	0.40	0.44	1.98	2.06	16.5	12,684	12,616	-1%
	NSC	Norfolk Southern	1.00	1.17	1.00	6.22	6.12	15.0	11,502	11,331	-1%
Utilities	ETR	Entergy	1.68	2.29	1.30	5.22	5.42	14.1	12,206	12,675	4%

As of 05.31.15. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) 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			EV/ EBITDA ³	Debt/ TE ⁴	Div Yld	Mkt Cap
					EPS	Sales	TBV ²				
Banks	CM	Canadian Imperial Bank	76.34	96.95	8.4	nmf	1.9	nmf	nmf	4.6%	30,328
	HSBC	HSBC Holdings PLC	47.50	59.89	10.9	nmf	1.2	nmf	nmf	5.3%	185,401
	ONB	Old National Bancorp	13.61	20.06	13.7	nmf	1.9	nmf	nmf	3.5%	1,592
Capital Goods	CAT	Caterpillar	85.32	109.35	13.2	0.9	6.8	6.4	367%	3.3%	51,508
	FLR	Fluor	56.22	81.78	12.4	0.4	2.8	5.2	34%	1.5%	8,240
	GE	General Electric	27.27	34.85	16.6	1.9	10.8	15.3	788%	3.4%	274,771
	TPC	Tutor Perini	20.96	34.06	10.6	0.2	1.5	6.5	115%	0.0%	1,027
Consumer Dur & App	COH	Coach	35.37	50.35	16.1	2.3	4.4	10.0	0%	3.8%	9,772
	MDC	MDC Holdings	27.96	43.88	19.8	0.8	1.1	19.8	74%	3.6%	1,366
Energy	APA	Apache	59.84	101.81	16.0	1.9	1.1	6.7	53%	1.7%	22,565
	ESV	Ensco PLC	23.50	43.75	3.5	1.1	0.7	nmf	72%	2.6%	5,506
	HFC	HollyFrontier	41.65	59.67	13.2	0.5	2.6	8.8	34%	3.2%	8,109
	PGN	Paragon Offshore PLC	1.66	4.85	0.5	0.1	0.3	nmf	346%	0.0%	142
	RDS/A	Royal Dutch Shell PLC	59.72	83.38	9.3	0.2	1.0	4.8	23%	5.4%	189,613
	SFL	Ship Finance Int'l Ltd	16.35	20.88	11.3	4.6	1.3	13.3	134%	10.5%	1,525
	TDW	Tidewater	24.54	48.05	6.6	0.8	0.5	19.0	62%	4.1%	1,154
	TOT	TOTAL SA	50.49	77.64	11.0	0.7	1.2	6.0	42%	4.5%	120,961
Food & Staples Retailing	WMT	Wal-Mart Stores	74.27	93.82	14.9	0.5	4.1	8.0	74%	2.6%	239,558
Health Care Equip/Srvcs	BAX	Baxter Int'l	66.61	92.29	13.5	2.2	24.2	12.2	508%	3.1%	36,253
Household Products	KMB	Kimberly-Clark	108.86	132.64	18.5	2.0	nmf	13.7	nmf	3.2%	39,636
Insurance	PRU	Prudential Financial	84.61	112.49	8.8	nmf	0.9	nmf	nmf	2.7%	38,328
	TRV	Travelers Cos	101.12	127.89	10.0	nmf	1.5	nmf	nmf	2.4%	32,227
Materials	ABX	Barrick Gold	11.86	21.30	22.4	1.4	2.5	nmf	234%	1.7%	13,813
	AGU	Agrium	103.96	135.26	17.4	0.9	4.1	11.0	99%	3.4%	14,892
	AUY	Yamana Gold	3.59	7.05	nmf	2.2	0.7	nmf	32%	1.7%	3,380
	BHP	BHP Billiton Ltd	44.63	63.94	11.3	1.2	2.1	5.5	41%	5.6%	116,139
	MOS	Mosaic	45.85	71.12	16.2	1.8	2.0	8.5	44%	2.4%	16,741
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	100.14	117.06	16.7	3.8	14.2	10.9	78%	3.0%	277,693
	SNY	Sanofi	49.41	65.93	16.7	6.8	49.0	9.6	558%	2.7%	129,233
Real Estate	ANH	Anworth Mortgage Asset	5.20	6.57	10.2	nmf	0.8	nmf	nmf	11.5%	545
	BMR	BioMed Realty Trust	20.39	28.18	20.2	nmf	1.3	nmf	nmf	5.1%	4,151
Software & Services	IBM	Int'l Business Machines	169.65	227.16	10.1	1.8	nmf	9.1	nmf	3.1%	167,060
	MSFT	Microsoft	46.86	53.99	17.9	4.0	6.0	9.6	33%	2.6%	379,077
Technology Hardware	AVX	AVX	14.19	19.18	15.1	1.8	1.3	6.0	0%	3.0%	2,386
	GLW	Corning	20.92	29.83	13.3	2.7	1.6	8.4	19%	2.3%	26,329
	QCOM	Qualcomm	69.68	90.77	14.9	4.1	3.7	9.8	0%	2.8%	113,590
Telecom Services	T	AT&T	34.54	39.87	14.2	1.4	nmf	9.3	nmf	5.4%	179,366
Transportation	NM	Navios Maritime Holdings	3.42	7.10	nmf	0.6	0.4	10.2	204%	7.0%	357
	NSC	Norfolk Southern	92.00	116.29	14.8	2.4	2.3	8.1	73%	2.6%	28,046
Utilities	ETR	Entergy	76.47	90.21	14.6	1.1	1.4	6.8	128%	4.3%	13,728

As of 05.31.15. N/A=Not applicable. nmf=Not meaningful. ¹ =First-time recommendation. ²Tangible book value. ³Enterprise value-to-earnings before interest taxes depreciation and amortization. ⁴Tangible equity. SOURCE: AI 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

Remembering that any stock that we own in our newsletter portfolios is fair game for purchase and choosing again to feature undervalued names that have not been discussed in a while in this space, we will redeploy dollars from the **Ely Lilly** sale by picking up \$29,000 of **General Electric** and **Kimberly-Clark** in TPS Portfolio. We already hold sizable positions in **Agrium**, **Baxter Int'l**, **Corning**, **Norfolk Southern**, **Royal Dutch**, **Travelers**, **Tutor Perini** and **Wal-Mart Stores** and/or maintain sufficient weightings in their industries/sectors. We will transact on June 8.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AGU	Agrium	Materials	103.96	135.26
BAX	Baxter Int'l	Health Care	66.61	92.29
GE	General Electric Co	Industrials	27.27	34.85
GLW	Corning	Information Technology	20.92	29.83
KMB	Kimberly-Clark	Consumer Staples	108.86	132.64
NSC	Norfolk Southern	Industrials	92.00	116.29
RDS/A	Royal Dutch Shell PLC	Energy	59.72	83.38
TRV	Travelers Cos	Financials	101.12	127.89
TPC	Tutor Perini	Industrials	20.96	34.06
WMT	Wal-Mart Stores	Consumer Staples	74.27	93.82

As of 05.31.15. SOURCE: AI Frank using data from Bloomberg

Agrium (AGU)

Agrium is one of the largest retail suppliers of agricultural products and services in North America, South America, Europe and Australia, as well as a wholesale producer and marketer of all three major agricultural nutrients (nitrogen, potash and phosphates). AGU has assembled a valuable and scarce asset base that seems difficult to replicate. Although the company warned that its 2015 results will come in lighter than expectations due to the negative impact of higher Chinese urea exports, margin pressure on seed sales and reduced expected U.S. corn planting, we remain positive on the long-term prospects of AGU and its diversified business, as well as for agriculture in general. The decline of global arable land and population growth should force farmers to be more productive and should drive growth of crop inputs. We like that Agrium has extensive retail and solid wholesale operations, and is well-positioned throughout the agriculture value chain (including seeds, crop chemicals and services such as application). AGU generates solid free cash flow and offers investors a yield of 3.4%.

Baxter Int'l (BAX)

Baxter develops, manufactures and markets products that focus on hemophilia, immune disorders, infectious diseases, kidney disease, trauma and other chronic and acute medical conditions. Baxter's three main operating business areas are: BioScience, Medication Delivery and Renal (which includes a portfolio of dialysis-related prod-

ucts). The firm will split into two this year, with the medical products business to retain the Baxter name and the bioscience business to be called Baxalta. We believe that competitive advantages of both companies should remain strong, supported by the fact that more than two-thirds of Baxter's revenue is generated from market-leading products. Emerging market economies are a prime source of future growth, and hemophilia demographics point to a large unmet need in numerous regions. We continue to see the benefits of the firm's Gambro AB acquisition, due to its strength in hemodialysis and renal replacement therapies. BAX shares are trading at attractive valuation metrics and offer investors a 3.1% dividend yield.

General Electric (GE)

GE is a highly diversified, global industrial corporation, with products and services that include power generation equipment, aircraft engines, locomotives, medical equipment, appliances, commercial leasing and personal finance. The stock surged higher in April following news that GE was planning to sell the majority of its finance and real estate assets. We believe that this is a good move, as it allows GE to redeploy capital and focus on its core industrial businesses. GE has also had a difficult time appeasing regulators and politicians in its pursuit of French industrial giant Alstom, though a final EU antitrust decision should come this year. CEO Jeffrey Immelt indicated that the U.S. economy is "getting a little bit better every day" and the global environment is mixed, "Europe is slightly improving, overall China remains good for GE, resource-rich markets are mixed, we expect to have positive revenue in places like the Middle East, Latin America and Africa, meanwhile, Russia and Australia will be tough." We like that GE has a globally and segment-diverse revenue stream and that it has been aggressively cutting costs to boost margins. GE shares currently yield 3.4%.

Corning (GLW)

Corning is the leading designer and manufacturer of glass and ceramic substrates found in liquid crystal displays, fiber-optic cables, automobiles and laboratory products. The company has five primary divisions: Display Technologies, Telecommunications, Environmental Technologies, Specialty Materials and Life Sciences. It has been a tough stretch for GLW since its high in February, as foreign exchange rate and margin concerns have weighed on the shares. The company posted expectation-beating earnings for Q1, although the EPS growth was at-

tributed to events that are not expected to be recurring. Management expects LCD unit sales growth in the mid-single digits, minimal negative currency impacts and ultra-high definition 4K display shipments to more than double in 2015. We believe that demand for displays will drive earnings growth for the upcoming year, especially as display dimensions continue to increase, which should result in more shipments for GLW. We like that Corning continues to distribute capital to shareholders via dividends and repurchases, the latter of which totaled \$502 million last quarter. Corning's inexpensive valuation (P/E ratio of 13.3) and 2.3% dividend yield are also appealing.

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, such as diapers, toilet tissue, paper towels and facial tissue, and the company's focus on growing its emerging market businesses is paying off. KMB has improved sales, while continuing to focus on cost-controlling initiatives and should realize future pricing and margin improvements through product innovation and marketing. While currency headwinds provide near-term hurdles, 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. Additionally, management expects to achieve \$300 million in annual cost savings from its ongoing FORCE program (\$90 million was achieved in Q1) and an additional \$60 to \$80 million annually from the 2014 restructuring. KMB generates solid free cash flow, which supports share repurchases and a 3.2% dividend yield.

Norfolk Southern (NSC)

Norfolk is a leading North American transportation provider, operating approximately 20,000 rail route miles in 22 states and the District of Columbia, serving every major container port in the Eastern U.S., and providing efficient connections to other rail carriers. The firm operates the most extensive intermodal network in the East and is a major transporter of coal, automotive and industrial products. Shares of NSC are down more than 15% this year as Q1 results came in below expectations. Volume gains in its Merchandise and Intermodal segments couldn't offset weakness in the Coal division and lower

fuel surcharge revenue. While brisk operational headwinds are not going to disappear overnight, we think the pullback creates an attractive entry point for investors. Coal will most likely continue to struggle, but trends in the majority of NSC's markets remain favorable and support rising traffic. Network investments should improve capacity in more heavily trafficked regions and lead to increased conversion from truck shipping to rail. We like Norfolk's safety record and that it generates attractive free cash flow and maintains one of the more solid operating ratios in the industry. NSC shares trade for less than 15 times earnings and currently yield 2.6%.

Royal Dutch Shell PLC (RDS/A)

Royal Dutch is engaged in the exploration, production, refining and sale of petroleum products worldwide. Shares have struggled this year as oil prices continue to reside well below 2014 summer highs, and some investors are concerned that the company is paying too much for its \$70 billion acquisition of BG Group. While we don't expect operational challenges to disappear, we believe they are nearer term in nature as we still subscribe to the long-term global-energy story as usage in emerging economies continues to rise. Although a lesser price for BG would have been great, we like that the acquisition accelerates Shell's position in LNG (liquefied natural gas) and other projects, boosting reserves by 25% and production by 20%, and potentially generating annual cost savings of \$2.5 billion. The combo will leave Royal Dutch as the largest LNG and second largest energy company in the world. We think the company can increase cash flow from operations via BG's assets that mesh well with its existing portfolio, and that it can generate meaningful cash through divestiture (both supporting the attractive dividend and potential future share repurchases). RDS/A currently sports a net dividend yield of 5.4%.

Travelers Cos (TRV)

Travelers is a leading provider of property and casualty insurance for auto, home and business. The company's diverse business lines offer its global customers a wide range of coverage sold primarily through independent agents and brokers. TRV posted decent profits of \$2.53 per share in Q1, thanks to a solid combined ratio, lower-than-expected catastrophic losses and a higher-than-estimated favorable reserve development. Top-line growth in the short run is a challenge, but the firm boasts top-notch risk management and underwriting skills. Further, we believe

that Travelers' relatively small international business offers meaningful growth opportunities as premiums outside the U.S. have roughly doubled over the past few years. We see TRV as one of the better managed insurers, and like the P/E ratio of 10 and the dividend yield of 2.4%.

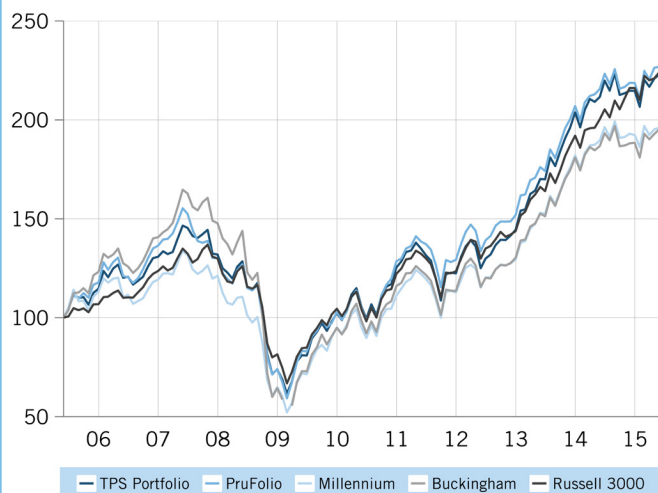
Tutor Perini (TPC)

TPC is a leading civil and building construction company offering diversified general contracting and design-build services to private clients and public agencies throughout the world. Over the years, TPC has achieved a solid reputation for its capacity to complete large and complex transportation and heavy civil construction projects. We believe the recent weakness in the stock price is overdone and offers an attractive entry point. Management is projecting full-year 2015 EPS of \$2.20 to \$2.50, and TPC is now trading for less than 9 times the midpoint of that range. We are attracted to the potential revenue growth drivers the company has in its expanding backlog of business (currently \$7.8 billion) and its potential to win materially beneficial projects during the remainder of 2015. We also like that TPC has transformed its overall business into a much more diversified mix of customers and resulting revenue streams. We are constructive on the potential for improving cash flow and its use in strengthening the balance sheet, buying back stock and potentially instituting a dividend.

Wal-Mart Stores (WMT)

Retailing behemoth Wal-Mart conducts domestic operations under numerous store formats, and has a growing international footprint. WMT shares have been hit hard this year (off 13%) as its commitment to raise employee wages and invest in e-commerce, along with currency headwinds, have eaten into profits. However, we were pleased to see better-than-expected U.S. same-store-sales growth during Q1 and believe its key initiatives—assortment improvements, better execution of everyday low pricing, store experience enhancements and a growing contribution from its Neighborhood Market store concept—could further enhance domestic operations. We think the investment in staff and e-commerce will make a long-term difference in performance, and we continue to like the international segment as well as the differing store concepts to capture additional grocery and urban market business. WMT shares trade for 15 times earnings and the firm remains committed to returning capital to holders via buybacks and dividends (the yield is 2.6%). ■

NEWSLETTER PORTFOLIO PERFORMANCE



	May	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	1.25	3.62	4.55	19.07	14.67	6.92
Millennium	0.49	1.95	3.47	19.41	15.56	6.97
PruFolio	0.24	3.76	5.23	19.31	16.69	8.54
TPS	0.94	3.85	5.37	21.26	16.15	8.35
Major Indexes						
Russell 3000	1.38	3.67	11.85	19.93	16.55	8.40
S&P 500	1.29	3.23	11.80	19.67	16.53	8.12
Dow Jones Industrial Avg	1.35	2.14	10.28	16.09	15.08	8.36

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.66	9.96	Russell 3000
Millennium	12.31.99	9.70	4.93	Russell 3000
PruFolio	12.29.00	14.02	5.84	Russell 3000
TPS	03.10.77	18.38	11.04	S&P 500 ¹

Since *The Prudent Speculator's* launch in March 1977, its 1,832 stock recommendations have returned, on average, an annualized 17.35%, not including dividends.

As of 05.31.15. 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. ¹The 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 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 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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