August 4, 2015

the Prudent Speculator

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So there we were, three long-term top-performing newsletter editors sitting on stage last month at the San Francisco MoneyShow as Mark Hulbert, our *Stocks for Those Who Think a Bear Market is About to Begin* panel moderator, and a standing-room-only crowd (we were actually able to fill the small room to which we were assigned!) peppered us with queries. Though Mr. Hulbert exclaimed that the title of the discussion hardly seemed appropriate given that the major market averages were then trading within sight of all-time highs, while he wrote that same day of the Show itself, "There were numerous workshops catering to greed, with advisers enticing investors with the prospect of triple- and even quadruple-digit returns." I dutifully served up our usual list of *cold stocks* to an audience that seemed much more interested in hot ticker symbols that would soar in the immediate days ahead.

> "A bird in the hand is worth two in the bush."
>
> —Aesop

In fact, one persistent questioner wanted to ensure that each of the stocks we were recommending had already appreciated subtantially in price, as she stated that she only invested in stocks that went up. Obviously, that begged the question of why she felt compelled to spend a Friday afternoon listening to a guy like me with a track record of recommendations that has *only* a 63% success (capital appreciation) rate and who readily concedes that his strategy is not for those looking to make a quick buck, but is instead designed for those who endeavor to grow wealth slowly by buying and patiently harvesting a broadly diversified portfolio of undervalued stocks.

Certainly, we are well aware that momentum-based approaches have performed very well of late, as investors have been willing to pay a hefty premium for growth, while many have been dumping stocks that are not seeing rapidly improving top and bottom lines. Alas, we know that no investment methodology outperforms all the time, but those who have consistently followed value-oriented strategies more often than not have been handsomely rewarded in the fullness of time and those that have chased high-flying names have often faced big losses when the excitement fades.

Sounds like what we were saying as the Tech Bubble was inflating and when our founder Al Frank and I spoke to a throng of just six people at the 2000 San Francisco MoneyShow as our value message failed to resonate with an audience insistent that the New Economy was the only place in which to invest. Outside of profitless biotech companies and a few fast-growing tech names, we hardly see the same kind of euphoria today in the publicly traded equity markets, but numerous stocks in the value realm seemingly have been given up for dead while optimism in the private-equity arena appears to be unbridled.

A glance at the front page of *The Wall Street Journal* this weekend illustrates the point. Below the fold in small type, the publication noted that America's two largest oil companies, **Exxon Mobil** (XOM—$77.18) and Chevron, each fell 5% in the wake of disappointing Q2 profits. Meanwhile, above the fold, the main headline proclaimed, "Uber's Value Surges Past $50 Billion," as the ride-sharing company completed a new round of richly valued funding. Believe it or not, while Exxon still sports a much larger market capitalization, its dismal results worked out to $4.2 billion in *earnings* for the three months, while Uber supposedly produced $400 million in *revenue* for all of 2014 and now faces a host of regulatory pressures in addition to competition from fellow startups Lyft and Sidecar!

Those caveats aside, were Uber to decide to go public, its IPO likely would be as hot as they come, but we would continue to advocate investing long-term-oriented dollars in the inexpensive Exxon's of the world. As Warren Buffett said back in early-2000, "If anyone starts explaining to you what is going on in the truly manic portions of this enchanted market, you might remember another line of song: 'Fools give you reasons, wise men never try.'"

John Buckingham
Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

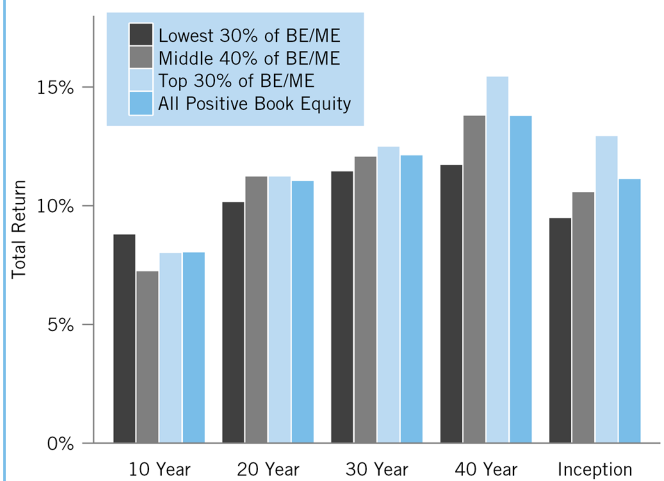
Value vs. Growth: Historical Evidence

The return through the first seven months of 2015 on the Russell 3000 Value index trailed that of its Growth counterpart by more than 790 basis points (-0.3% vs. +7.6%). It is not overly surprising, then, that our four newsletter portfolios have struggled to make any headway this year. And to be candid, it has been an uphill climb for the better part of eight years for those of us who focus on undervalued and out-of-favor stocks.

Indeed, despite decades of market return statistics that overwhelmingly favor companies that trade for inexpen-

LONG-TERM RETURNS—BOOK EQUITY

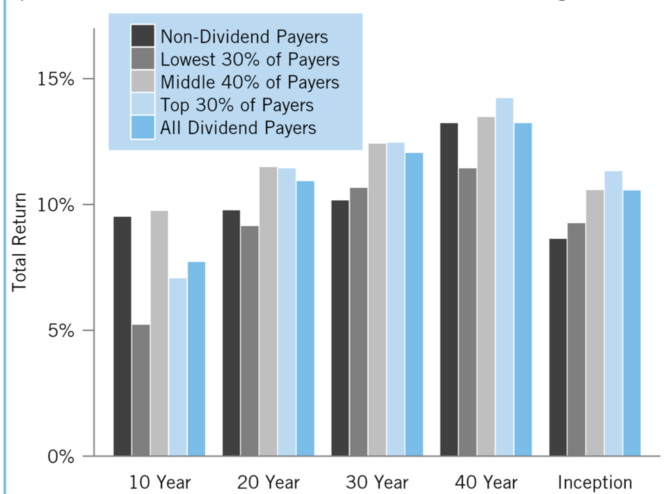
Historical data published by Professor's Fama & French illustrate the merits of stocks with high book values relative to share prices...



From 06.30.26 through 12.31.14. Portfolios are formed on book equity divided by market equity at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

LONG-TERM RETURNS—DIVIDENDS

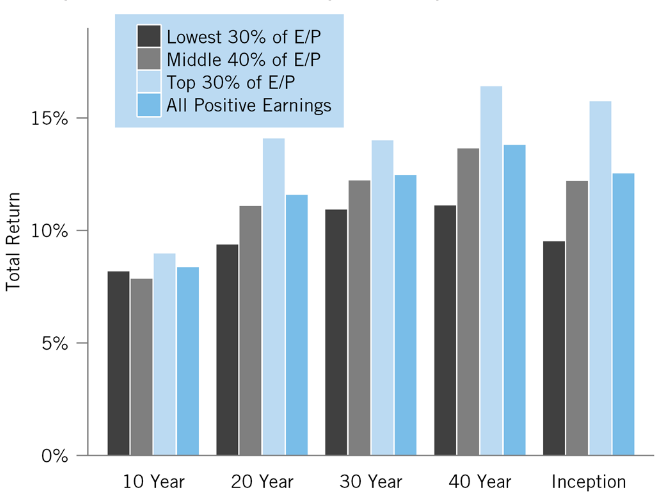
...not to mention those that boast a higher dividend yield, the periods from 1975-1984 and 2005-2014 notwithstanding.



From 06.30.27 through 12.31.14. Portfolios are formed on dividend yield at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

LONG-TERM RETURNS—EARNINGS

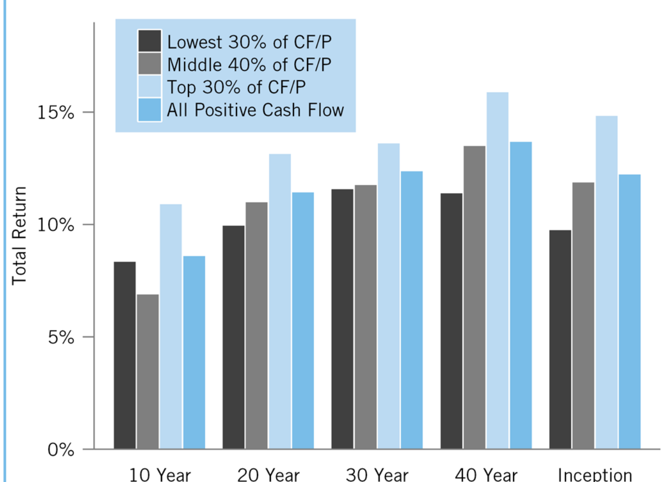
Further supporting the Value argument, Fama/French analytics dating back to 1951 show that higher Earnings to Price...



From 06.30.51 through 12.31.14. Portfolios are formed on earnings divided by price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

LONG-TERM RETURNS—CASH FLOW

...and Cash Flow to Price ratios (those metrics the recipricols of P/E and P/CF) also have outperformed by a wide amount.

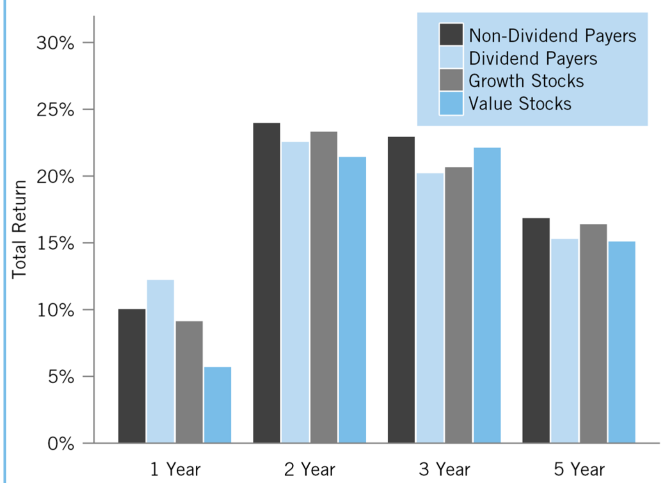


From 06.30.51 through 12.31.14. Portfolios are formed on cash flow divided by price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

sive fundamental valuation metrics, not to mention our 38-year top-of-table long-term total-return track record, Value has been in the investment doghouse more or less since 2006 when the Russell 3000 Value index completed a run of seven years of outperformance. Happily, our portfolios generally outperformed in 2009-2010 and again in 2012-2013, so that we had respectable multi-year return comparisons at the end of 2014, even against a benchmark like the S&P 500, but our greater emphasis in recent years on less-volatile large-cap value names and our affection for dividend-paying stocks have yet to really pay off. Of course, with the Federal Reserve poised to raise interest rates and the major market averages trading near all-time highs, we think Value's return to the fore may be nearing and we very much like that our portfolios are favorably priced against even the Value-focused indexes.

SHORT-TERM RETURNS—DIVS/BOOK EQUITY

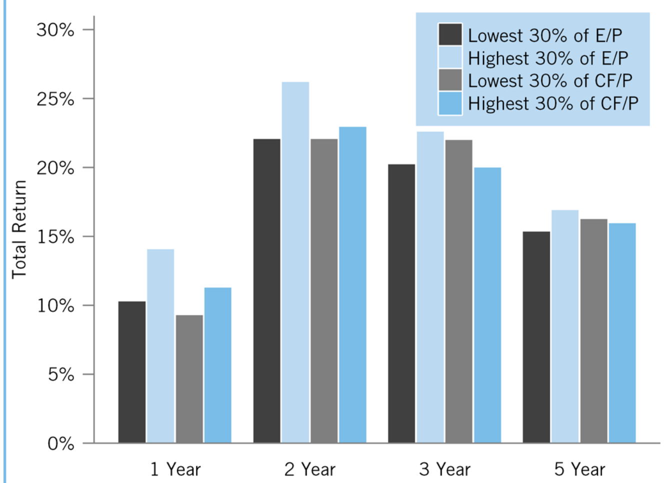
Fama/French tell a different story in recent years as Value (Dividend Payers and higher Book Equity to Price) often has lagged Growth...



As of 12.31.14. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

SHORT-TERM RETURNS—EARNINGS/CASH FLOW

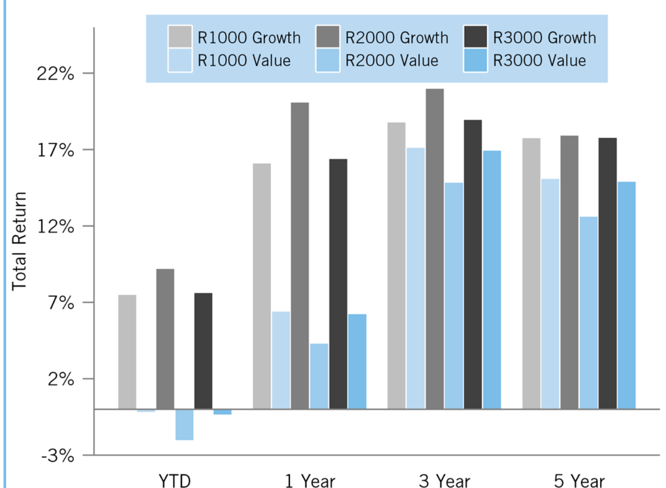
...even as the numbers continue to support investing in undervalued companies with lower P/E (higher E/P) ratios.



As of 12.31.14. CF/P portfolios are formed on cash flow divided by price. E/P portfolios are formed on earnings divided by price. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

SHORT-TERM RETURNS—VALUE/GROWTH

Indexes maintained by Russell vividly detail the difficulties many Value strategies have faced in 2015 and over the past 5 years.



As of 07.31.15. Russell 1000 are Large-Cap indexes. Russell 2000 are Small-Cap indexes; Russell 3000 are All-Cap indexes. Total returns. SOURCE: Al Frank using data from Bloomberg

CURRENT PORTFOLIO VALUATION METRICS

But the historical evidence, we think, argues that portfolios with inexpensive valuation metrics are the place to be going forward.

Index	Price/ Book Value	Dividend Yield	Price/ Earnings	Price/ Cash Flow
TPS Portfolio	**1.6**	**2.5%**	**16.1**	**8.6**
Buckingham Portfolio	**1.5**	**2.6%**	**16.0**	**8.3**
Millennium Portfolio	**1.5**	**2.8%**	**15.9**	**7.8**
PruFolio	**1.6**	**2.5%**	**15.4**	**8.3**
Russell 3000 Index	2.8	1.9%	20.2	12.1
Russell 3000 Value Index	1.8	2.4%	17.1	10.0
Russell 3000 Growth Index	5.7	1.4%	24.6	15.3
Russell 2000 Index	2.3	1.4%	42.4	15.0
Russell 2000 Value Index	1.5	2.1%	26.0	11.7
Russell 2000 Growth Index	4.8	0.8%	108.4	20.6
Russell 1000 Index	2.8	1.9%	19.4	11.9
Russell 1000 Value Index	1.8	2.4%	16.7	9.8
Russell 1000 Growth Index	5.8	1.5%	23.0	15.0
S&P 500 Index	2.8	2.0%	18.5	11.7

As of 07.31.15. Using a sector-based ETF (SPY) as proxy for Standard & Poor's 500. SOURCE: Al Frank using data from Bloomberg

Recommended Stocks

In this space, we list each month 40 of our most attractively priced recommended stocks. All trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

				Target	Price Multiples			EV/	Debt/	Div	Mkt
Industry Group	Ticker[1]	Company	Price	Price	EPS	Sales	TBV[2]	EBITDA[3]	TE[4]	Yld	Cap
Autos & Components	• GM	General Motors	31.51	44.99	7.3	0.3	1.7	3.0	110%	4.6%	49,912
Banks	CM	Canadian Imperial Bank	71.43	96.95	7.8	nmf	1.8	nmf	nmf	4.9%	28,379
	HSBC	HSBC Holdings PLC	45.07	59.89	10.4	nmf	1.1	nmf	nmf	5.5%	176,153
Capital Goods	ARII	American Railcar	39.95	66.09	7.5	1.1	1.6	5.2	55%	4.0%	853
	CAT	Caterpillar	78.63	106.90	13.0	0.9	6.2	6.1	362%	3.9%	47,385
	ETN	Eaton PLC	60.58	84.21	12.8	1.3	nmf	10.5	nmf	3.6%	28,321
	FLR	Fluor	46.75	75.95	10.3	0.3	2.3	4.3	33%	1.8%	6,776
	GE	General Electric	26.10	35.19	17.1	1.9	7.8	nmf	596%	3.5%	263,517
	TRN	Trinity Industries	29.26	52.26	6.9	0.7	1.8	4.9	140%	1.5%	4,519
Consumer Dur & App	COH	Coach	31.20	49.15	14.2	2.0	3.9	8.3	0%	4.3%	8,620
	MDC	MDC Holdings	29.86	45.26	21.1	0.8	1.2	20.5	74%	3.3%	1,459
Energy	APA	Apache	45.86	101.81	12.2	1.5	0.8	nmf	53%	2.2%	17,294
	ESV	Ensco PLC	16.58	38.92	2.7	0.8	0.5	nmf	70%	3.6%	3,908
	MRO	Marathon Oil	21.01	33.06	21.9	1.5	0.7	6.0	26%	4.0%	14,181
	RDS/A	Royal Dutch Shell PLC	57.48	83.83	10.2	0.2	1.0	5.4	23%	5.6%	183,598
	SFL	Ship Finance Int'l	16.73	20.88	11.5	4.7	1.3	13.3	134%	10.3%	1,563
	TDW	Tidewater	19.53	43.86	5.3	0.6	0.4	17.2	62%	5.1%	917
	TOT	Total SA	49.29	78.01	10.3	0.7	1.3	5.8	46%	4.6%	119,004
Food & Staples Retailing	WMT	Wal-Mart Stores	71.98	93.07	14.4	0.5	3.9	7.8	74%	2.7%	231,815
Health Care Equip/Srvcs	• QSII	Quality Systems	12.75	18.63	20.6	1.6	5.5	9.8	0%	5.5%	769
Materials	ABX	Barrick Gold	7.06	18.07	13.3	0.8	1.5	nmf	234%	2.8%	8,223
	AUY	Yamana Gold	1.96	5.60	nmf	1.3	0.4	nmf	32%	3.1%	1,855
	FCX	Freeport-McMoRan	11.75	28.21	12.1	0.6	0.9	nmf	137%	1.7%	12,221
	MOS	Mosaic	42.94	71.12	15.2	1.7	1.8	8.0	44%	2.6%	15,678
Pharma/Biotech/Life Sci	JNJ	Johnson & Johnson	100.21	116.53	16.6	3.9	12.3	11.3	67%	3.0%	277,492
Real Estate	ANH	Anworth Mortgage Asset	5.00	6.57	9.8	nmf	0.8	nmf	nmf	12.0%	524
	BMR	BioMed Realty Trust	21.54	29.12	21.1	nmf	1.5	nmf	nmf	4.8%	4,385
Semis & Cap Equipment	INTC	Intel	28.95	41.85	12.1	2.5	3.2	5.6	28%	3.3%	137,628
Software & Services	IBM	Int'l Business Machines	161.99	219.86	10.0	1.8	nmf	9.0	nmf	3.2%	158,674
	MSFT	Microsoft	46.70	54.66	17.6	4.0	6.4	13.0	48%	2.7%	373,506
Technology Hardware	AVX	AVX	13.47	19.25	14.8	1.7	1.2	5.6	0%	3.1%	2,264
	ERIC	LM Ericsson	10.73	16.86	18.8	1.3	3.8	10.5	27%	2.4%	35,294
	GLW	Corning	18.68	29.85	11.8	2.4	1.4	7.3	19%	2.6%	22,900
	JBL	Jabil Circuit	20.25	33.92	16.8	0.2	2.4	4.8	101%	1.6%	3,925
	LXK	Lexmark Int'l	33.99	51.00	8.6	0.6	nmf	9.2	nmf	4.2%	2,094
	QCOM	Qualcomm	64.39	88.19	15.3	3.8	3.8	9.9	0%	3.0%	101,170
Telecom Services	T	AT&T	34.74	41.03	13.9	1.6	nmf	10.4	nmf	5.4%	213,566
Transportation	NM	Navios Maritime Holdings	3.70	7.10	nmf	0.7	0.5	10.2	213%	6.5%	386
	NSC	Norfolk Southern	84.33	118.36	14.4	2.3	2.1	7.9	74%	2.8%	25,416
Utilities	ETR	Entergy	71.02	90.21	13.6	1.0	1.3	6.6	128%	4.7%	12,750

As of 07.31.15. 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

Wanting to put to work some of the cash accumulated from recent sales, we will add stocks to all four of our newsletter portfolios this month. We will buy $10,000 of **Lexmark Int'l** in Millennium Portfolio and $29,000 of **Old National Bancorp** in TPS Portfolio. In PruFolio, we will purchase $20,000 of **Fluor Corp** and **Johnson & Johnson**, while we will pick up $6,000 of **AT&T**, **General Motors** and **Quality Systems** in Buckingham Portfolio. We already hold sufficient stakes in **AVX, Caterpillar** and **Total** for each portfolio. We will transact on August 10.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AVX	AVX	Information Technology	13.47	19.25
CAT	Caterpillar	Industrials	78.63	106.90
FLR	Fluor	Industrials	46.75	75.95
GM	General Motors	Consumer Discretionary	31.51	44.99
JNJ	Johnson & Johnson	Health Care	100.21	116.53
LXK	Lexmark Int'l	Information Technology	33.99	51.00
ONB	Old National Bancorp	Financials	14.39	20.31
QSII	Quality Systems	Health Care	12.75	18.63
T	AT&T	Telecom Services	34.74	41.03
TOT	Total SA	Energy	49.29	78.01

As of 07.31.15. SOURCE: Al Frank using data from Bloomberg

AVX (AVX)

AVX is 72% owned by Kyocera of Japan, and is a manufacturer and supplier of electronic components, including ceramic and tantalum capacitors for use in products that need to store energy. The company recently reported fiscal first quarter adjusted EPS of $0.21, two cents ahead of the consensus estimate. Favorable exchange rates, cost controls and a good product mix deserved the credit, despite lower total revenue when compared against the same quarter last year. CEO John Gilbertson said, "We anticipate an increase in the new electronic applications through this year, particularly in automotive and aerospace applications, while we focus on both organic growth and other avenues for sales growth." We believe that AVX will benefit as smartphone demand, which is expected to make up 80% of the cell phone market in 2016, keeps growing, especially as Chinese and Korean telecom manufacturers roll out next-generation 4G networks. Additionally, we like that AVX continues to return cash to holders via a buyback program and 3.1% dividend yield.

Caterpillar (CAT)

Caterpillar is a global titan in mining, construction and power systems equipment. CAT has a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. CAT's extensive dealer network and reputation for quality products provide key competitive advantages over rivals. Shares have been hit hard since summer 2014, with operating headwinds brisk due to continued weakness in numerous commodities driven by concerns of slowing global demand. We like that management remains focused on operating efficiencies, reworking its supply chain, business plan execution and aftermarket sales and services. We see long-term benefits from the continued migration of production to lower-cost regions and we continue to like the potential of the Power Systems business. Despite the lack of near-term visibility, we remain long-term fans of CAT and its solid free cash flow generation, which supports capital allocation strategies that start with maintaining its 'A' S&P credit rating. The firm said that it still expects to earn an adjusted $5.00 per share for full-year 2015, and management is repurchasing $1.5 billion worth of stock in Q3. CAT shares currently yield 3.9%.

Fluor (FLR)

Fluor is one of the largest publicly traded engineering and construction concerns in the world. The company provides engineering, procurement, construction, operations, maintenance and project management services, and 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 diversified by both geography and business mix. Fluor shares have been hit hard again over the past two months, presenting what we believe is an attractive long-term opportunity, given a still strong backlog of $41.6 billion (the oil & gas segment presently accounts for 69%) and good opportunity for additional revenue potential. About 84% of its current backlog is made up of cost-plus contracts, which should reduce execution risk. While near-term uncertainty caused management to lower full-year EPS guidance to a range of $4.05—$4.35, FLR shares are now trading for less than 12 times the low end of the outlook. We are attracted to Fluor's free cash flow generation and solid balance sheet, which sports over $1 billion of net cash that should allow the company to continue to return money to shareholders via dividends and repurchases.

General Motors (GM)

General Motors designs and manufactures automobiles and trucks. The company operates 10 distinct brands around the globe and delivered more than 9.9 million cars in 2014. GM has emerged as a stronger and more streamlined company following the 2009 Great Recession bankruptcy filing, repaying TARP bailout money and accumulating $22.8 billion of gross cash. Sales growth outside of North America has been outstanding, increasing by more than 1.5 million vehicles between 2009 and 2014. While we recognize that issues like pensions and union contracts will always be part of the equation, we think that the company's solid balance sheet ($35 billion of overall liquidity), careful cost controls and positive free cash flow make the 'new' GM an attractive addition to a well-diversified portfolio. GM has a price-to-forward-earnings ratio under 7, a dividend yield of 4.6% and a big stock buyback program.

Johnson & Johnson (JNJ)

Johnson & Johnson is a leading global health care company that develops, manufactures and markets a diversified portfolio of pharmaceutical, medical device, diagnostic and consumer health products. We like that JNJ maintains a broad revenue stream, which helps insulate the firm from economic downturns and offers investors a defensive growth opportunity that pays a stable dividend. Q2 saw the company exceed top- and bottom-line expectations despite currency headwinds, with revenue hitting $17.8 billion and adjusted EPS coming in at $1.71. JNJ faces relatively few major patent losses over the next few years and the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power. Further, due to favorable market demographics, we see long-term potential for the company's orthopedics business, as well as organic growth in emerging markets and healthy prospects for opportunistic expansion via acquisition. JNJ has a strong balance sheet and solid potential for a number of its compounds in clinical trials. We also like the 3.0% dividend yield.

Lexmark Int'l (LXK)

Lexmark is a developer, manufacturer and supplier of printing and imaging solutions with a global footprint. The company recently reported Q2 adjusted EPS of $0.97, ahead of the $0.88 estimate, though when including a German copyright levy and restructuring charges that are not expected to recur, LXK posted a loss of $0.59. The company lowered estimates and now expects full-year 2015 adjusted EPS to be between $3.55 and $3.75. The weak guidance has sent shares down more than 30%. No doubt, we were disappointed by the outlook and by the one-time costs, but we think that the company has a solid balance sheet and is making good use of it, the most recent example being the immediately accretive purchase of Kofax, a software provider. Exchange rates notwithstanding, we are pleased that gross margin and core earnings have continued to grow. We believe that the sizeable pullback offers investors an attractive entry point into a solid IT name. LXK shares yield a generous 4.2%.

Old National Bancorp (ONB)

With $12.1 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. A focus on strengthening the firm's risk profile, enhancing management's discipline and achieving consistent quality earnings continue to be the three strategic imperatives that guide the firm. While organic growth hasn't been easy to come by, we were encouraged to see continued progress on this front during Q2. We like that in the second half of 2015, ONB is focused on continuing to grow organic revenue, improving operating leverage and prudently using capital. Even following recent acquisition and share buyback activity, the company maintains a solid balance sheet. After repurchasing 1.9 million shares during Q2, the board of directors approved an additional one million shares to be added to 2014's six-million-share buyback authorization. Trading for less than 15 times forward earnings projections, sporting a 3.3% dividend yield and owning solid capital ratios, we are fans of small-cap regional bank ONB.

Quality Systems (QSII)

QSII and its NextGen Healthcare subsidiary develop and market computer-based practice management and electronic health records solutions as well as revenue cycle management applications and connectivity services for medical and dental group practices and hospitals throughout the United States. Shares were hit hard (the stock dropped 25%) in response to poor fiscal Q1 2016 financial results that included a material drop in bookings. The selloff looks to be overdone in our view. We believe that the bookings miss was driven by a combination of factors, including seasonality and customer hesitation due to presumptions that another round of ICD-10 delays would be coming (ICD-10 is a clinical coded cataloging system that is used within the healthcare industry and after lengthy delays is slated to go into use in the U.S. on October 1, 2015). We like that there is new leadership in place that could be a catalyst moving forward. Also, we note that QSII has multiple revenue streams and significant cross-selling opportunities within its sizeable client base, while the firm is working on next-generation cloud-based solutions. With a track record of solid free-cash-flow generation and a willingness to return capital to shareholders, we are very much attracted to the solid balance sheet that sports no debt and almost $2 per share of cash. QSII has a rich current dividend yield of 5.5%.

AT&T (T)

Telecom behemoth AT&T 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 750,000 fiber Internet business locations. AT&T completed the acquisition of DirecTV in July, bringing an additional 18 million Latin American customers and the Holy Grail: rights to NFL Sunday Ticket. The NFL was so important that it is likely that the entire $48.5 billion deal would have fallen through if the rights weren't included. AT&T earned $0.69 per share in Q2 on $33.0 billion in revenue, both ahead of consensus estimates. The company was helped by solid performance in the Wireless segment, which is largely a result of weaning consumers off of subsidized smartphones in favor of financed products. In addition to its strategic spending, we like that T continues to distribute cash to holders via buybacks and dividends, pushing the yield on the low-beta stock to a hefty 5.4%.

Total SA (TOT)

Total is one of the world's largest integrated oil and gas companies. Its global businesses cover three segments: Upstream E&P, Downstream Refining and Marketing, and Chemicals. Despite the pounding global energy prices have taken since late-summer 2014, we view TOT as attractive due to its focus on having a solid balance sheet and healthy operations via continued execution of cost control initiatives, a slowing of capital expenditures (especially versus the 2007-2013 rate), positive operational and production momentum, and divestitures of non-core assets. Though one might expect the plunge in crude to lead to production issues, we believe that TOT could be hitting its production sweet spot over the next few years. Having tumbled 25% in the past year, we think the stock is compelling as TOT trades for 12 times forward earnings estimates and offers investors a 4.6% net dividend yield, while the latest quarterly results topped expectations.

NEWSLETTER PORTFOLIO PERFORMANCE

	Jul	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	-1.35	0.57	-0.10	16.50	14.07	5.36
Millennium	-1.02	-0.91	-0.41	16.52	14.67	5.26
PruFolio	-0.94	0.72	0.98	15.92	15.96	7.06
TPS	-1.45	0.78	0.73	17.91	15.16	6.80
Major Indexes						
Russell 3000	1.67	3.64	11.28	18.00	16.36	7.89
S&P 500	2.10	3.35	11.20	17.57	16.24	7.72
Dow Jones Industrial Avg	0.52	0.55	9.34	13.54	13.93	7.98

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	12.21	9.82	Russell 3000
Millennium	12.31.99	9.39	4.88	Russell 3000
PruFolio	12.29.00	13.61	5.77	Russell 3000
TPS	03.10.77	18.20	11.00	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,834 stock recommendations have returned, on average, an annualized 17.27%, not including dividends.

As of 07.31.15. 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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