September 2, 2015

# *the* Prudent Speculator

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September started with a nasty 3% or so selloff, adding to the misery wrought by an awful August, during which U.S. stocks endured their worst month since September 2011, with the markets along the way suffering their first 10%+ setback in nearly four years. Though the major market averages had enjoyed little in the way of downside volatility the past few years, we have witnessed plenty of sizable moves south in individual stocks, so we can't say that we are overly surprised by the big downturn. After all, corrections of 10%+ have taken place every 10 months or so on average, per data dating back to 1927, and the summer months statistically have been less favorable.

> "Patience is the ability to idle your motor when you feel like stripping your gears."
> —Barbara Johnson

Of course, the purported catalysts for the plunge—continued pressure on commodity prices, uncertainty about the impact and timing of the Federal Reserve's first increase in the Fed Funds rate and worries about slowing growth in China (even as the Middle Kingdom accounts for less than 1% of U.S. exports and about 2% of revenue for companies in the S&P 500)—have been headwinds for much of the year. That is not meant to imply that these negatives should have been discounted by markets that are supposedly always looking several quarters ahead, especially as the latest economic numbers out of Beijing on the health of the factory and services sectors left a lot to be desired, while China's recent efforts to prop up its sagging stock market smack of desperation. And it was somewhat disconcerting to hear International Monetary Fund (IMF) Managing Director Christine Lagarde say this week, "As the Chinese economy is adjusting to a new growth model, growth is slowing—but not sharply, and not unexpectedly. The transition to a more market-based economy and the unwinding of risks built up in recent years is complex and could well be somewhat bumpy."

No doubt, weaker-than-expected data out of China and many emerging countries weigh on the world economic outlook, while Europe and Japan are struggling with lackluster growth. Indeed, the IMF indicated that it may again cut its projection of global GDP growth this year, after trimming its estimate from 3.5% to 3.3% back in July.

It has been a modestly different story on the domestic front of late as Q2 GDP growth was revised up to 3.7%, auto sales continued on pace for their best year since 2001, weekly jobless claims have remained at levels not seen since early-2000 and sales of existing homes just hit an 8.5-year high. True, the latest read on the health of the manufacturing sector was disappointing, but if past relationships hold, the ISM August PMI figure of 51.1 would correspond to a 2.5% increase in real GDP annually, which actually is above the Federal Reserve projection for 2015 of 1.8% to 2.0%.

Moderate U.S. economic growth aside, it is an interconnected world and reductions in expectations for profits in the Energy, Materials and Industrials sectors will likely lead to a small drop in EPS for the S&P 500 in 2015. However, we do not think much really has changed in the past few weeks in regard to the long-term prospects of the companies in which we are invested, save for a 10% or greater decline in many of their share prices.

Not surprisingly, then, we are actually more optimistic about our stocks today as valuations are less expensive, dividend yields are higher, interest rates are still very low, the sentiment pendulum has swung heavily toward Fear, the Fed is still likely to stay highly accommodative, even after "Liftoff," and we've finally had the correction that so many pundits have long been predicting. Certainly, we understand that when Wall Street holds a sale, many folks do not want to shop, and sadly some choose to dump their holdings to avoid additional paper losses, but we note that Buckingham Portfolio has enjoyed an average annualized rate of return of 11.6% (versus 9.2% for the Russell 3000) since its launch 12+ years ago, despite enduring eight different months in which large-cap stocks fell by more than the 6.0% that the S&P 500 skidded during August.

Chief Investment Officer
Al Frank Asset Management (AFAM)

# Earnings Scorecard

*Q2 Season*

Continued strength in the dollar, as well as the plunge in oil and other commodity prices, not to mention moderate domestic and global economic growth, weighed on second-quarter earnings. Despite those headwinds, the major market averages held up fairly well, aside from the last several weeks of course, even as Standard & Poor's calculated that Q2 bottom-up operating EPS for the S&P 500 declined by 10.8%. Relative to subdued expectations,

| Industry Group | Ticker | Company | 06.15 Act EPS | 06.14 Act EPS | 06.15 Est EPS | TTM[1] EPS | NTM[2] Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Autos & Components | GM | General Motors | 1.29 | 0.58 | 1.06 | 4.31 | 4.95 | 5.9 | 152,764 | 153,230 | 0.3% |
| | GT | Goodyear Tire & Rubber | 0.84 | 0.80 | 0.75 | 2.84 | 3.57 | 8.3 | 17,209 | 16,601 | -3.5% |
| | HMC | Honda Motor | 0.85 | 0.80 | 0.64 | 2.73 | 2.76 | 11.4 | 117,006 | 123,558 | 5.6% |
| Banks | BBT | BB&T | 0.69 | 0.70 | 0.70 | 2.85 | 3.01 | 12.3 | nmf | nmf | nmf |
| | CM | Canadian Imperial Bank | 1.96 | 2.06 | 1.75 | 7.84 | 7.18 | 10.2 | nmf | nmf | nmf |
| | HSBC | HSBC Holdings PLC | 1.17 | 1.34 | 1.17 | 4.36 | 3.57 | 11.1 | nmf | nmf | nmf |
| | JPM | JPMorgan Chase | 1.49 | 1.59 | 1.45 | 6.05 | 6.12 | 10.5 | nmf | nmf | nmf |
| | KEY | KeyCorp | 0.27 | 0.29 | 0.28 | 1.09 | 1.07 | 12.9 | nmf | nmf | nmf |
| | ONB | Old National Bancorp | 0.25 | 0.22 | 0.24 | 1.02 | 1.04 | 13.3 | nmf | nmf | nmf |
| | PNC | PNC Financial Services | 1.75 | 1.79 | 1.76 | 7.06 | 7.35 | 12.4 | nmf | nmf | nmf |
| | WFC | Wells Fargo | 1.03 | 1.01 | 1.03 | 4.11 | 4.29 | 12.4 | nmf | nmf | nmf |
| Capital Goods | ARII | American Railcar Industries | 1.54 | 1.51 | 1.42 | 5.36 | 5.34 | 7.8 | 769 | 796 | 3.5% |
| | CAT | Caterpillar | 1.27 | 1.69 | 1.26 | 6.06 | 4.04 | 18.9 | 52,812 | 47,160 | -10.7% |
| | DE | Deere & Co | 1.53 | 2.33 | 1.44 | 6.51 | 4.51 | 18.1 | 31,112 | 25,171 | -19.1% |
| | ETN | Eaton PLC | 1.16 | 1.11 | 1.13 | 4.73 | 4.70 | 12.1 | 21,888 | 21,633 | -1.2% |
| | FLR | Fluor | 1.00 | 1.02 | 1.06 | 4.52 | 4.21 | 10.8 | 20,254 | 19,977 | -1.4% |
| | GE | General Electric | 0.28 | 0.39 | 0.28 | 1.53 | 1.44 | 17.2 | 139,122 | 128,882 | -7.4% |
| | TPC | Tutor Perini | 0.24 | 0.58 | 0.52 | 1.63 | 2.55 | 7.0 | 4,831 | 5,342 | 10.6% |
| | TRN | Trinity Industries | 1.33 | 1.01 | 1.09 | 4.22 | 4.38 | 6.2 | 6,528 | 6,861 | 5.1% |
| Commercial Services | MAN | ManpowerGroup | 1.33 | 1.35 | 1.28 | 5.24 | 5.53 | 15.7 | 19,941 | 19,973 | 0.2% |
| | WM | Waste Management | 0.67 | 0.60 | 0.63 | 2.51 | 2.63 | 19.0 | 13,394 | 13,308 | -0.6% |
| Consumer Dur & App | COH | Coach | 0.31 | 0.59 | 0.29 | 1.92 | 1.89 | 16.0 | 4,192 | 4,491 | 7.1% |
| | MDC | MDC Holdings | 0.41 | 0.45 | 0.38 | 1.37 | 1.88 | 15.2 | 1,786 | 2,138 | 19.7% |
| | WHR | Whirlpool | 2.70 | 2.62 | 2.62 | 11.40 | 13.86 | 12.1 | 20,881 | 21,866 | 4.7% |
| Consumer Services | RCL | Royal Caribbean Cruises | 0.84 | 0.66 | 0.73 | 3.56 | 5.18 | 17.0 | 8,081 | 8,708 | 7.8% |
| Diversified Financials | BK | Bank of New York Mellon | 0.77 | 0.62 | 0.66 | 2.66 | 2.91 | 13.7 | nmf | nmf | nmf |
| | COF | Capital One Financial | 1.77 | 2.06 | 1.97 | 7.36 | 7.55 | 10.3 | nmf | nmf | nmf |
| | CS | Credit Suisse Group AG | 0.61 | 0.36 | 0.56 | 2.50 | 2.68 | 10.0 | nmf | nmf | nmf |
| | GS | Goldman Sachs Group | 4.49 | 4.10 | 3.96 | 19.67 | 19.14 | 9.9 | nmf | nmf | nmf |
| Energy | APA | Apache | 0.22 | 1.67 | -0.28 | 2.30 | -0.18 | nmf | 10,214 | 7,345 | -28.1% |
| | BHI | Baker Hughes | -0.14 | 0.92 | -0.14 | 2.25 | 0.12 | 455.3 | 21,447 | 15,714 | -26.7% |
| | BRS | Bristow Group | 0.56 | 1.32 | 0.91 | 3.04 | 3.52 | 10.5 | 1,853 | 1,889 | 1.9% |
| | CHK | Chesapeake Energy | -0.11 | 0.36 | -0.11 | 0.49 | -0.49 | nmf | 15,583 | 11,165 | -28.4% |
| | DO | Diamond Offshore Drilling | 0.66 | 0.52 | 0.47 | 2.84 | 1.28 | 18.5 | 2,667 | 2,109 | -20.9% |
| | E | Eni SpA | 0.08 | 0.65 | 0.29 | 1.67 | 1.53 | 21.7 | 119,400 | 75,035 | -37.2% |
| | ESV | Ensco PLC | 1.18 | 1.58 | 1.03 | 6.22 | 2.87 | 6.3 | 4,644 | 3,598 | -22.5% |
| | HAL | Halliburton | 0.44 | 0.91 | 0.29 | 3.31 | 1.56 | 25.3 | 30,440 | 24,231 | -20.4% |
| | HFC | HollyFrontier | 1.45 | 0.99 | 1.30 | 3.61 | 4.40 | 10.6 | 16,309 | 12,507 | -23.3% |
| | MRO | Marathon Oil | -0.23 | 0.89 | -0.23 | -0.16 | -1.06 | nmf | 8,306 | 6,214 | -25.2% |
| | SSE | Seventy Seven Energy | -0.93 | 0.17 | -0.96 | -1.38 | -2.96 | nmf | 1,747 | 980 | -43.9% |
| | TDW | Tidewater | -0.02 | 0.88 | 0.16 | 2.82 | -0.63 | nmf | 1,415 | 1,102 | -22.1% |
| | TNP | Tsakos Energy Navigation | 0.45 | -0.02 | 0.42 | 1.14 | 1.75 | 4.3 | 561 | 503 | -10.4% |
| | XOM | Exxon Mobil | 1.00 | 2.05 | 1.11 | 5.62 | 4.01 | 18.8 | 296,755 | 278,407 | -6.2% |
| Food & Staples Retailing | WMT | Wal-Mart Stores | 1.08 | 1.21 | 1.12 | 4.87 | 4.62 | 14.0 | 485,621 | 491,946 | 1.3% |
| Food Bev & Tobacco | ADM | Archer-Daniels-Midland | 0.60 | 0.77 | 0.65 | 3.18 | 3.47 | 13.0 | 73,703 | 75,410 | 2.3% |
| | TSN | Tyson Foods | 0.80 | 0.75 | 0.92 | 3.19 | 3.41 | 12.4 | 40,972 | 40,720 | -0.6% |
| Health Care Equip/Srvcs | ABT | Abbott Laboratories | 0.52 | 0.54 | 0.50 | 2.32 | 2.26 | 20.0 | 20,527 | 21,149 | 3.0% |
| | AET | Aetna | 2.05 | 1.69 | 1.82 | 7.45 | 7.66 | 15.0 | 59,834 | 62,812 | 5.0% |
| | CAH | Cardinal Health | 1.00 | 0.83 | 0.99 | 4.39 | 5.01 | 16.4 | 102,529 | 113,837 | 11.0% |
| | QSII | Quality Systems | 0.12 | 0.09 | 0.16 | 0.62 | 0.60 | 22.6 | 494 | 517 | 4.6% |

As of 08.31.15. N/A=Not applicable. [1]Trailing 12-month. [2]Next 12-months. nmf=Not meaningful. SOURCE: Al Frank using data (EPS Adjusted) from Bloomberg

Corporate America turned in decent Q2 reports as Bloomberg found that the number of companies in the S&P 500 that exceeded expectations was 68.4%, compared to 21.8% that trailed forecasts and 9.8% that met projections. In Q2 2014, the Beat/Miss/Match figures were 67.3%/20.3%/12.4%. Our experience was similar with the 100 recommended stocks presented below as 67% topped estimates.

As always, investors were keenly focused on the forward outlook and management teams remained cautious in their guidance. As such, Standard & Poor's presently projects that bottom-up operating earnings per share for the S&P 500 will now decline to $111.62 in 2015, down 1.2% from $113.01 in 2014, but the current, admittedly aggressive estimate for 2016 calls for a 17.3% jump to $130.80.

| Industry Group | Ticker | Company | 06.15 Act EPS | 06.14 Act EPS | 06.15 Est EPS | TTM[1] EPS | NTM[2] Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Household Products | KMB | Kimberly-Clark | 1.41 | 1.49 | 1.36 | 5.79 | 5.98 | 17.8 | 19,604 | 18,916 | -3.5% |
| Insurance | ALL | Allstate | 0.63 | 1.01 | 0.96 | 5.20 | 5.29 | 11.0 | nmf | nmf | nmf |
| | AXS | Axis Capital Holdings Ltd | 0.93 | 1.63 | 0.94 | 4.73 | 4.33 | 12.9 | nmf | nmf | nmf |
| | MET | MetLife | 1.56 | 1.39 | 1.49 | 5.98 | 6.02 | 8.3 | nmf | nmf | nmf |
| | PRU | Prudential Financial | 2.91 | 2.49 | 2.47 | 10.02 | 10.10 | 8.0 | nmf | nmf | nmf |
| | TRV | Travelers Cos | 2.52 | 1.93 | 2.12 | 10.73 | 9.42 | 10.6 | nmf | nmf | nmf |
| Materials | ABX | Barrick Gold | 0.05 | 0.14 | 0.06 | 0.44 | 0.47 | 14.9 | 9,651 | 9,148 | -5.2% |
| | AGU | Agrium | 4.87 | 4.45 | 4.77 | 6.39 | 7.83 | 13.3 | 15,489 | 16,339 | 5.5% |
| | AUY | Yamana Gold | -0.01 | 0.05 | 0.00 | -0.08 | 0.03 | 62.7 | 1,943 | 1,976 | 1.7% |
| | CE | Celanese | 1.58 | 1.47 | 1.42 | 6.19 | 5.84 | 10.4 | 6,255 | 6,028 | -3.6% |
| | FCX | Freeport-McMoRan | 0.14 | 0.58 | 0.08 | 0.97 | 1.05 | 10.1 | 19,332 | 18,620 | -3.7% |
| | MOS | Mosaic | 1.05 | 0.70 | 0.90 | 3.18 | 3.35 | 12.2 | 9,256 | 9,865 | 6.6% |
| | NEM | Newmont Mining | 0.26 | 0.20 | 0.27 | 1.39 | 0.94 | 18.2 | 7,643 | 7,869 | 3.0% |
| | RYAM | Rayonier Advanced Materials | 0.39 | 0.59 | 0.28 | 1.78 | 1.60 | 4.3 | 944 | 907 | -4.0% |
| Media | CMCSA | Comcast | 0.84 | 0.75 | 0.84 | 3.13 | 3.39 | 16.6 | 71,119 | 74,024 | 4.1% |
| | DIS | Walt Disney | 1.45 | 1.28 | 1.41 | 4.84 | 5.46 | 18.7 | 51,342 | 55,482 | 8.1% |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 2.57 | 2.01 | 2.43 | 8.41 | 9.95 | 15.2 | 20,765 | 21,649 | 4.3% |
| | GILD | Gilead Sciences | 2.92 | 2.32 | 2.71 | 9.72 | 11.43 | 9.2 | 29,194 | 30,871 | 5.7% |
| | JNJ | Johnson & Johnson | 1.71 | 1.66 | 1.67 | 6.04 | 6.14 | 15.3 | 71,882 | 71,527 | -0.5% |
| | PFE | Pfizer | 0.56 | 0.58 | 0.52 | 2.18 | 2.14 | 15.1 | 48,196 | 47,749 | -0.9% |
| | SNY | Sanofi | 0.78 | 0.80 | 0.73 | 3.37 | 3.22 | 15.2 | 43,467 | 41,791 | -3.9% |
| Real Estate | ANH | Anworth Mortgage Asset | 0.15 | 0.09 | 0.14 | 0.57 | 0.61 | 8.3 | nmf | nmf | nmf |
| Retailing | AEO | American Eagle Outfitters | 0.17 | 0.03 | 0.14 | 0.90 | 1.03 | 16.5 | 3,423 | 3,509 | 2.5% |
| | KSS | Kohl's | 1.07 | 1.13 | 1.16 | 4.23 | 4.50 | 11.4 | 19,101 | 19,391 | 1.5% |
| | PETS | PetMed Express | 0.29 | 0.25 | 0.27 | 0.97 | 1.00 | 16.5 | 228 | 231 | 1.1% |
| | SPLS | Staples | 0.12 | 0.12 | 0.12 | 0.97 | 0.94 | 15.1 | 21,817 | 21,284 | -2.4% |
| | TGT | Target | 1.22 | 0.78 | 1.11 | 4.36 | 4.88 | 15.9 | 74,029 | 74,978 | 1.3% |
| Semis & Cap Equipment | DIOD | Diodes | 0.34 | 0.38 | 0.32 | 1.41 | 1.29 | 15.3 | 883 | 868 | -1.7% |
| | INTC | Intel | 0.58 | 0.56 | 0.54 | 2.39 | 2.28 | 12.5 | 55,251 | 56,636 | 2.5% |
| | NVDA | Nvidia | 0.26 | 0.23 | 0.21 | 1.19 | 1.34 | 16.8 | 4,780 | 4,725 | -1.1% |
| Software & Services | ATVI | Activision Blizzard | 0.29 | 0.05 | 0.08 | 1.28 | 1.35 | 21.3 | 4,650 | 4,728 | 1.7% |
| | CA | CA | 0.64 | 0.48 | 0.62 | 1.99 | 2.41 | 11.3 | 4,170 | 4,096 | -1.8% |
| | IBM | Int'l Business Machines | 3.84 | 4.32 | 3.78 | 16.24 | 15.92 | 9.3 | 86,913 | 82,435 | -5.2% |
| | MSFT | Microsoft | 0.62 | 0.58 | 0.58 | 2.66 | 2.62 | 16.6 | 93,580 | 90,184 | -3.6% |
| | SYMC | Symantec | 0.29 | 0.39 | 0.43 | 1.51 | 1.87 | 11.0 | 6,272 | 6,222 | -0.8% |
| Technology Hardware | AAPL | Apple | 1.85 | 1.28 | 1.81 | 8.66 | 9.44 | 11.9 | 224,337 | 239,926 | 6.9% |
| | BHE | Benchmark Electronics | 0.42 | 0.43 | 0.39 | 1.62 | 1.68 | 12.7 | 2,726 | 2,689 | -1.4% |
| | BRCD | Brocade Comm Systems | 0.21 | 0.19 | 0.22 | 0.79 | 0.99 | 10.8 | 2,239 | 2,285 | 2.1% |
| | CSCO | Cisco Systems | 0.51 | 0.50 | 0.56 | 1.87 | 2.30 | 11.2 | 49,161 | 51,098 | 3.9% |
| | ERIC | LM Ericsson | 0.15 | 0.13 | 0.12 | 0.64 | 0.72 | 13.5 | 31,055 | 28,892 | -7.0% |
| | GLW | Corning | 0.38 | 0.37 | 0.37 | 1.58 | 1.46 | 11.8 | 9,552 | 10,059 | 5.3% |
| | IM | Ingram Micro | 0.55 | 0.54 | 0.54 | 2.58 | 3.02 | 9.0 | 46,392 | 45,630 | -1.6% |
| | LXK | Lexmark Int'l | 0.97 | 0.99 | 0.88 | 3.94 | 3.59 | 8.3 | 3,672 | 3,790 | 3.2% |
| | QCOM | Qualcomm | 0.83 | 1.31 | 0.95 | 4.21 | 4.30 | 13.2 | 26,517 | 22,654 | -14.6% |
| | STX | Seagate Technology PLC | 0.77 | 1.10 | 0.63 | 4.54 | 4.43 | 11.6 | 13,738 | 12,700 | -7.6% |
| Telecom Services | T | AT&T | 0.69 | 0.62 | 0.64 | 2.50 | 2.74 | 12.1 | 132,987 | 168,059 | 26.4% |
| Transportation | CSX | CSX | 0.56 | 0.53 | 0.53 | 2.01 | 2.07 | 13.2 | 12,504 | 12,383 | -1.0% |
| | NSC | Norfolk Southern | 1.41 | 1.79 | 1.42 | 5.84 | 5.69 | 13.7 | 11,173 | 11,002 | -1.5% |
| Utilities | CWT | California Water Service | 0.21 | 0.36 | 0.37 | 1.18 | 1.30 | 15.9 | 595 | 545 | -8.5% |
| | ETR | Entergy | 0.83 | 1.11 | 1.14 | 4.94 | 5.19 | 12.6 | 11,923 | 12,686 | 6.4% |

As of 08.31.15. N/A=Not applicable. [1]Trailing 12-month. [2]Next 12-months. nmf=Not meaningful. SOURCE: Al 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 EPS | Sales | TBV[2] | EV/ EBITDA[3] | Debt/ TE[4] | Div Yld | Mkt Cap |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Autos & Components | GM | General Motors | 29.44 | 46.03 | 6.8 | 0.3 | 1.6 | 2.8 | 110% | 4.9% | 46,633 |
| Banks | BBT | BB&T | 36.92 | 48.96 | 13.0 | nmf | 2.0 | nmf | nmf | 2.9% | 28,783 |
| | ONB | Old National Bancorp | 13.80 | 20.31 | 13.5 | nmf | 1.9 | nmf | nmf | 3.5% | 1,590 |
| Capital Goods | ARII | American Railcar Ind | 41.46 | 63.93 | 7.7 | 1.2 | 1.6 | 5.3 | 55% | 3.9% | 885 |
| | CAT | Caterpillar | 76.44 | 106.90 | 12.6 | 0.9 | 6.0 | 6.0 | 362% | 4.0% | 46,065 |
| | ETN | Eaton PLC | 57.06 | 84.21 | 12.1 | 1.2 | nmf | 10.0 | nmf | 3.9% | 26,676 |
| | GE | General Electric | 24.82 | 35.19 | 16.2 | 1.8 | 7.4 | nmf | 596% | 3.7% | 250,593 |
| | TPC | Tutor Perini | 17.70 | 31.04 | 10.9 | 0.2 | 1.2 | 7.1 | 110% | 0.0% | 869 |
| Consumer Dur & App | COH | Coach | 30.25 | 47.91 | 15.8 | 2.0 | 4.9 | 9.5 | 52% | 4.5% | 8,368 |
| | MDC | MDC Holdings | 28.49 | 46.27 | 20.7 | 0.8 | 1.1 | 19.9 | 74% | 3.5% | 1,393 |
| Energy | BRS | Bristow Group | 37.06 | 63.14 | 12.2 | 0.7 | 0.8 | 9.9 | 55% | 3.7% | 1,294 |
| | ESV | Ensco PLC | 18.11 | 38.92 | 2.9 | 0.9 | 0.5 | nmf | 70% | 3.3% | 4,268 |
| | • NOV | National Oilwell Varco | 42.33 | 60.18 | nmf | 2.0 | 0.4 | 13.1 | 222% | 4.3% | 16,247 |
| | SFL | Ship Finance Int'l Ltd | 16.80 | 22.11 | 9.5 | 4.4 | 1.3 | 13.9 | 129% | 10.5% | 1,570 |
| | TOT | TOTAL SA | 46.40 | 78.01 | 9.3 | 0.7 | 1.2 | 5.4 | 46% | 4.9% | 112,026 |
| Food & Staples Retailing | WMT | Wal-Mart Stores | 64.73 | 90.44 | 13.3 | 0.4 | 3.4 | 7.2 | 72% | 3.0% | 208,466 |
| Food Bev & Tobacco | ADM | Archer-Daniels-Midland | 44.99 | 61.22 | 14.1 | 0.4 | 1.8 | 8.9 | 36% | 2.5% | 27,396 |
| Health Care Equip/Srvcs | QSII | Quality Systems | 13.59 | 18.63 | 22.0 | 1.7 | 5.9 | 10.7 | 0% | 5.2% | 820 |
| Insurance | PRU | Prudential Financial | 80.70 | 115.93 | 8.1 | nmf | 0.9 | nmf | nmf | 2.9% | 36,396 |
| Materials | AUY | Yamana Gold | 1.88 | 5.60 | nmf | 1.2 | 0.4 | nmf | 32% | 3.2% | 1,779 |
| | MOS | Mosaic | 40.83 | 72.80 | 12.8 | 1.6 | 1.7 | 7.2 | 45% | 2.7% | 14,467 |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 151.78 | 211.79 | 18.0 | 5.5 | nmf | 12.8 | nmf | 2.1% | 115,087 |
| | GILD | Gilead Sciences | 105.07 | 154.10 | 10.8 | 5.3 | 34.6 | 7.7 | 268% | 1.6% | 154,201 |
| | JNJ | Johnson & Johnson | 93.98 | 116.53 | 15.6 | 3.6 | 11.5 | 10.5 | 67% | 3.2% | 260,241 |
| | PFE | Pfizer | 32.22 | 42.11 | 14.8 | 4.1 | nmf | 11.6 | nmf | 3.5% | 198,712 |
| Real Estate | ANH | Anworth Mortgage Asset | 5.03 | 6.79 | 8.8 | nmf | 0.8 | nmf | nmf | 11.9% | 516 |
| | BMR | BioMed Realty Trust | 18.50 | 29.12 | 18.1 | nmf | 1.2 | nmf | nmf | 5.6% | 3,766 |
| Retailing | KSS | Kohl's | 51.03 | 82.07 | 12.1 | 0.5 | 1.8 | 5.5 | 82% | 3.5% | 10,098 |
| | • SSI | Stage Stores | 10.74 | 20.16 | 9.3 | 0.2 | 0.8 | 3.2 | 10% | 5.6% | 343 |
| Semis & Cap Equipment | INTC | Intel | 28.54 | 41.85 | 11.9 | 2.5 | 3.1 | 5.5 | 28% | 3.4% | 135,679 |
| Software & Services | IBM | Int'l Business Machines | 147.89 | 219.86 | 9.1 | 1.7 | nmf | 8.5 | nmf | 3.5% | 144,863 |
| | MSFT | Microsoft | 43.52 | 54.66 | 16.4 | 3.7 | 6.0 | 11.9 | 48% | 2.8% | 348,072 |
| Technology Hardware | AVX | AVX | 13.06 | 19.25 | 14.4 | 1.7 | 1.2 | 5.5 | 0% | 3.2% | 2,194 |
| | ERIC | LM Ericsson | 9.76 | 16.86 | 16.8 | 1.1 | 3.3 | 9.3 | 27% | 2.6% | 32,046 |
| | GLW | Corning | 17.21 | 29.85 | 10.9 | 2.2 | 1.3 | 6.9 | 19% | 2.8% | 21,098 |
| | LXK | Lexmark Int'l | 29.98 | 51.00 | 7.6 | 0.5 | nmf | 8.5 | nmf | 4.8% | 1,847 |
| Telecom Services | T | AT&T | 33.20 | 41.03 | 13.3 | 1.5 | nmf | 10.1 | nmf | 5.7% | 204,213 |
| Transportation | NM | Navios Maritime Holdings | 2.81 | 6.38 | nmf | 0.5 | 0.4 | 13.1 | 222% | 8.5% | 293 |
| | NSC | Norfolk Southern | 77.91 | 115.51 | 13.3 | 2.1 | 1.9 | 7.5 | 74% | 3.0% | 23,481 |
| Utilities | ETR | Entergy | 65.33 | 88.28 | 13.2 | 1.0 | 1.2 | 6.4 | 128% | 5.1% | 11,729 |

As of 08.31.15. 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

Reducing a portion of our modest cash levels, we will buy $10,000 of **Amgen** and **National Oilwell Varco** in Millennium Portfolio. In TPS Portfolio, we will purchase $29,000 of **Stage Stores** and bring our ownership in **Coach** up to that amount, while we will raise our stakes in **Bristow Group** and **IBM** to $6,000 in Buckingham Portfolio. Finally, we will boost our weighting in **Ericsson** to $20,000 in PruFolio. We already hold sufficient positions in **BB&T**, **MDC Holdings** and **Pfizer** for each portfolio. We will transact on September 9.

## NEWSLETTER PORTFOLIO PURCHASES

| Ticker | Company | Sector | Price | Target Price |
|---|---|---|---|---|
| AMGN | Amgen | Health Care | 151.78 | 211.79 |
| BBT | BB&T | Financials | 36.92 | 48.96 |
| BRS | Bristow Group | Energy | 37.06 | 63.14 |
| COH | Coach | Consumer Discretionary | 30.25 | 47.91 |
| ERIC | LM Ericsson | Information Technology | 9.76 | 16.86 |
| IBM | Int'l Business Machines | Information Technology | 147.89 | 219.86 |
| MDC | MDC Holdings | Consumer Discretionary | 28.49 | 46.27 |
| NOV | National Oilwell Varco | Energy | 42.33 | 60.18 |
| PFE | Pfizer | Health Care | 32.22 | 42.11 |
| SSI | Stage Stores | Consumer Discretionary | 10.74 | 20.16 |

As of 08.31.15. SOURCE: Al Frank using data from Bloomberg

## Amgen (AMGN)

Amgen, one of the world's largest biotechnology companies with revenue in excess of $20 billion, is engaged in the discovery, development and delivery of human therapeutics. The firm has a presence in more than 75 countries and its medicines treat cancer, kidney disease, rheumatoid arthritis, bone disease and other serious illnesses. Amgen reported strong Q2 earnings at the end of July, but shares pulled back sharply in August along with the rest of the market. We believe this provides a terrific entry point, especially after management raised its guidance for full-year 2015 adjusted EPS to between $9.55 and $9.80. We like that Amgen is entering a period of heavy product launches, a tribute to the investment and productivity in its pipeline, including the recent FDA approval of what should be the blockbuster launch of PCSK9 antibody Repatha. In testing, this "bad" cholesterol-reducing drug also showed evidence of potentially reducing the risk of heart attacks and strokes. Further, Amgen recently announced a global collaboration with Novartis for Alzheimer's medications. We are also partial to Amgen's strong free cash flow generation, solid financial footing and willingness to return capital to shareholders via dividend increases (2.1% yield) and repurchases.

## BB&T (BBT)

BB&T is one of the larger financial services holding companies in the U.S. with $210 billion in assets. The company operates 2,149 financial centers in 15 states and

Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance products and services. BB&T recently posted in-line Q2 adjusted EPS of $0.69, with improving loan growth, solid credit quality and continued strength in fee-based businesses. Given the company's history of lucrative deal-making, we were pleased to see BB&T complete its acquisitions of Bank of Kentucky and Susquehanna Bancshares, while announcing that it would buy National Penn Bancshares in order to further expand its footprint in the Mid-Atlantic area. We like the company's relatively conservative loan underwriting and its insurance operation that diversifies the revenue stream. BBT shares trade for less than 13 times forward earnings projections and offer a 2.9% yield.

## Bristow Group (BRS)

Bristow Group is a transportation company that provides helicopter services to the oil and gas industry. Shares have continued to struggle after one of its helicopters crashed in Lagos, Nigeria last month. Obviously not helping matters, the collapse in energy prices has taken a toll with BRS missing adjusted earnings expectations for its 2016 fiscal first quarter. Bristow continues to cut costs in an effort to mitigate the impact of the downturn; the latest plan aims for $75 million to $95 million of near-term savings. We still believe there is ample long-term opportunity in the name as we think that an eventual rebound in energy prices (due to increased global demand driven by emerging economies) will increase interest in Bristow's services. We also like that BRS has some diversification with a search-and-rescue service contract from the United Kingdom. Additionally, we like the solid balance sheet and healthy cash flows. The company's preference for a mostly-owned fleet seemingly makes cost management easier. BRS shares currently yield 3.7%.

## Coach (COH)

Coach, which is best known for accessories (especially handbags), is a leading specialty retailer positioned in the appealing affordable luxury segment. While much of its growth outside the U.S. has been concentrated in Japan, the company is also focused on Europe, China and other emerging economies. Shares have been hit hard since April, as the company battles to reverse trends of slowing spending in China and Europe. While social and economic pressures on Coach's worldwide stores seem likely to impact sales in the near term, we believe that cost controls and an emphasis on core products (handbags and purses), along with synergies from the recent acquisition of luxury designer footwear brand Stuart Weitzman, will prove a viable formula for long-term success. An experienced creative design team led by Stuart Vevers, who previously worked for Mulberry, Loewe and Louis Vuitton, should continue to lead the turnaround with new products and a revised, consistent brand message. We like the healthy balance sheet, the strong global brand with loyal customers and the momentum in new geographic markets. COH shares currently yield 4.5%.

## LM Ericsson (ERIC)

LM Ericsson, a Swedish company, is a leading international supplier of network equipment and related services to telecom operators for the handling and transmission of voice and data. Although the space is competitive, we believe Ericsson is in a solid position to take advantage of the growth in the smartphone market. We think ERIC has differentiated itself by focusing on the performance and overall quality of its networks. Although wireless operator capital expenditures on equipment are often lumpy, given the uncertain timing of network project updates, we believe that ERIC's service business should steadily grow, providing a catalyst for more equipment sales. Sales in the U.S. finally picked up in Q2, after having fallen the last four quarters. Given its expertise, there is reason to believe that ERIC will earn a sizeable chunk of the next-generation "5G" hardware upgrade spending as carriers begin transitioning to faster, more powerful equipment. Ericsson maintains a solid balance sheet, strong cash flows and an attractive 2.6% net dividend yield.

## Int'l Business Machines (IBM)

IBM is a leading provider of enterprise solutions, offering a broad portfolio of IT hardware, business and IT services, and a full suite of software solutions. Despite decent earnings results in Q2 ($3.84 per share vs. $3.78 est.), shares of IBM have slumped as core segments struggle to produce revenue growth. Currency headwinds adversely impacted results, while divested businesses also account for a portion of the drop in sales. Nonetheless, we like the company's continuing push to transform itself, focusing on higher value offerings, with aggressive investments in emerging technologies and markets (including Smarter Planet, Cloud, Healthcare and Business Analytics growth initiatives). CFO Martin Schroeter noted that IBM maintains its outlook of $15.75 to $16.50 per share of operating EPS in 2015, putting the current valuation at around 9 times the midpoint. The company continues to be an aggressive returner of capital to holders via dividends and share buybacks, which year to date total $2.4 billion and $2.3 billion, respectively. The stock also yields 3.5%.

## MDC Holdings (MDC)

MDC Holdings is a builder and seller of homes with operations in 11 states (including California, Colorado, Maryland, Virginia, Arizona and Florida) under the name Richmond American Homes, and also is an originator of mortgage loans and title agency services primarily to its home buyers. MDC posted adjusted Q2 EPS of $0.41, versus the $0.38 consensus estimate. An improving macroeconomic environment in the U.S. is bolstering the homebuilding industry, with MDC announcing that its backlog of orders swelled to $1.13 billion (the highest level since 2007). We see MDC as well-positioned to benefit from continued improvements in consumer confidence and employment and we like that the firm is playing it relatively safe as it continues to reduce speculative inventory. In addition to its backlog, MDC sports a broad geographic footprint, successful cost control initiatives and a solid balance sheet, with more than $900 million in liquidity that the company continues to smartly tap as it acquires land in attractive markets across the country. We also like the 3.5% dividend yield.

## National Oilwell Varco (NOV)

NOV is a global leader in the design, manufacture and sale of equipment and components used in oil and gas drilling and production operations. As with the rest of the oil patch, NOV shares have been rocked the past year (down more than 50%), but we like that the company dominates the drilling equipment space, making nearly every component that goes into a drilling rig as well as the supplies and tools used in the drilling process. In nearly every product line in which it competes, NOV is either first or a close second in terms of market share. While operating pressures will persist, we are comforted by a solid balance sheet, market leadership positions and a $10 billion backlog of business, which should help moderate the impact of slower near-term orders. We still believe in long-term energy demand growth with the global population expected to expand from 7 billion to 9 billion and global economic output more than doubling by 2040. For NOV, this should create opportunities as the energy space drives progression of unconventional technologies, replaces aging rig fleets, builds out deepwater fleets and develops floating production systems. Management has been repurchasing shares at recently depressed prices, while still funding an attractive dividend payout (the yield is 4.3%).

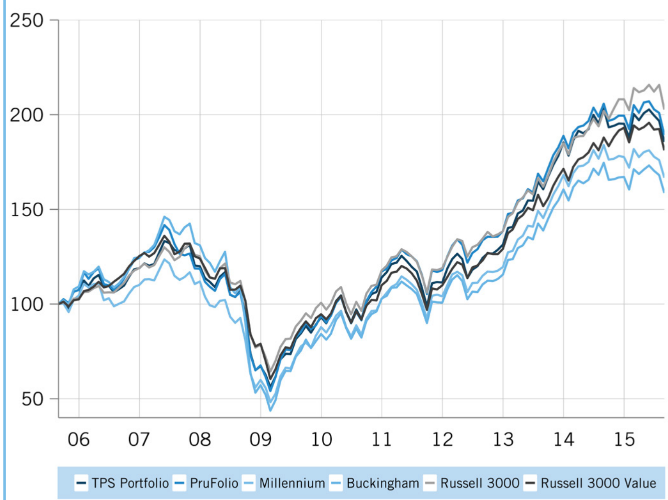
## Pfizer (PFE)

Pfizer is a global pharma giant focused on discovering, developing and marketing drugs for cardiovascular, metabolic, central nervous system, immunology, pain, infectious diseases, respiratory, oncology and other indications. The company also boasts a consumer products division, which though smaller in size provides nice cash flow. We believe that Pfizer's pipeline is solid, as evidenced by the recent launches of Prevnar (pneumococcal bacteria) and Ibrance (breast cancer), both of which should make solid contributions to the bottom line over time. We also continue to like the potential for upside from capital allocation, business development and management's exploration of a longer-term split-up of the company. Backed by a solid balance sheet, Pfizer has returned $9.6 billion to shareholders so far this year via buybacks and dividends, and expects to reach $13 billion by the end of the year. PFE shares currently offer an attractive 3.5% yield.

## Stage Stores (SSI)

Stage Stores is a specialty department store, operating under the Bealls, Goody's, Palais Royal, Peebles and Stage nameplates, with 850 stores in 40 states. SSI's principal focus is on consumers in small- and mid-sized markets, which the firm believes are underserved and less competitive. Some 64% of SSI's stores are located in markets with area populations of less than 50,000 and they offer a diversified product mix of national brands (accounting for some 87% of sales). SSI shares are down more than 35% since mid-August when the firm announced earnings that missed analyst expectations and lowered fiscal full-year EPS guidance to $1.05 to $1.15. Near-term operating headwinds will persist in some of its regions, however the company is closing 90 underperforming stores and shifting capital spend to modernizing its remaining stores and evolving technology and its loyalty programs. The firm also has a growing direct-to-consumer channel that still has low penetration within its existing client base. SSI has solid liquidity that is supported by operating cash flow and a $350 million revolving line of credit that does not mature until 2019. Using the low end of guidance, SSI shares trade for less than 11 times earnings and offer a very attractive 5.6% dividend yield.

## NEWSLETTER PORTFOLIO PERFORMANCE




| | Aug | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| ***Newsletter Portfolios*** | | | | | | |
| Buckingham | -5.61 | -5.07 | -9.16 | 12.85 | 14.03 | 4.72 |
| Millennium | -5.26 | -6.12 | -9.36 | 13.20 | 14.75 | 5.25 |
| PruFolio | -5.83 | -5.15 | -8.07 | 12.27 | 15.66 | 6.58 |
| TPS | -5.64 | -4.90 | -8.65 | 14.28 | 15.05 | 6.38 |
| ***Major Indexes*** | | | | | | |
| Russell 3000 | -6.04 | -2.61 | 0.35 | 14.63 | 16.03 | 7.32 |
| Russell 3000 Value | -5.87 | -6.19 | -3.61 | 13.75 | 14.56 | 6.12 |
| S&P 500 | -6.03 | -2.88 | 0.47 | 14.30 | 15.86 | 7.15 |
| Dow Jones Industrial Avg | -6.20 | -5.68 | -1.00 | 10.76 | 13.38 | 7.42 |

| | Inception Date | Since Inception | Index Return | Index |
|---|---|---|---|---|
| Buckingham | 01.21.03 | 11.61 | 9.21 | Russell 3000 |
| Millennium | 12.31.99 | 8.96 | 4.44 | Russell 3000 |
| PruFolio | 12.29.00 | 13.07 | 5.29 | Russell 3000 |
| TPS | 03.10.77 | 17.98 | 10.79 | S&P 500[1] |

Since *The Prudent Speculator's* launch in March 1977, its 1,836 stock recommendations have returned, on average, an annualized 17.17%, not including dividends.

As of 08.31.15. 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 Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. [1]The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. 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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