November 3, 2015

the Prudent Speculator

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One of my favorite observations from Warren Buffett seems appropriate these days. Part I reads: "Of course, the immediate future is uncertain; America has faced the unknown since 1776. It's just that sometimes people focus on the myriad of uncertainties that always exist while at other times they ignore them (usually because the recent past has been uneventful)."

> "The two most powerful warriors are patience and time."
> —Leo Tolstoy

Indeed, it was just a month ago that we were contending with a miserable third quarter in which stocks suffered their first 10% correction in more than four years. As we wrote in *TPS 588*: "Commodity prices remained weak, pressuring the profit outlook for many companies in the Energy, Industrials and Materials sectors. The Chinese stock market gave back the lion's share of its recent gains, economic data out of the Middle Kingdom and elsewhere compelled forecasters to lower their projections for global GDP growth and the refugee crisis exploded across Europe. Also, folks fretted over the timing of the first interest rate increase from the Federal Reserve and then dumped stocks anew when Janet Yellen & Co. decided not to raise interest rates at the September FOMC Meeting, sparking additional worries about the health of the global and U.S. economies."

To be sure, none of those worries were resolved last month and those same headwinds more or less remain front and center, yet stocks staged a terrific rebound during an often scary period. Posting the biggest gains in four years, the S&P 500 soared 8.4% in October, while the Russell 3000 jumped 7.9%. Value stocks, like those that we generally favor, trailed again in the performance race, with the Russell 3000 Value index gaining *only* 7.4%, compared to an 8.4% advance for the Russell 3000 Growth index. And our modestly elevated cash positions and several setbacks in individual stocks did our newsletter portfolios no favors, but we were again reminded of Part II of the Oracle of Omaha's admonition: "American business will do fine over time. And stocks will do well just as certainly, since their fate is tied to business performance. Periodic setbacks will occur, yes, but investors and managers are in a game that is heavily stacked in their favor."

Of course, as the latest profit and loss reports will attest, Corporate America did not exactly light up the scoreboard in the third quarter. In fact, when all of the numbers have been disclosed, sales and operating earnings for members of the S&P 500 are both expected to decline together for the first time in six years, no doubt not helped by the fact that Q3 U.S. GDP growth slowed to 1.5%, down from a 3.9% pace in Q2.

On the other side of the ledger, expectations ahead of earnings season were subdued as Bloomberg now calculates that with 386 S&P 500 companies having announced results thus far (as of November 3), 276 (71.5%) have beaten consensus analyst projections while just 81 (21.0%) have trailed expectations. Certainly, the outlooks offered by management teams have been lackluster, but most forecasters expect a rebound in earnings in 2016, buoyed by moderate economic growth, cost cutting, share repurchases and low borrowing costs.

On that last point, data provider Dealogic announced that U.S. bond sales by companies with good credit ratings hit $103 billion in October, a record for the month. Not surprisingly, companies are locking in record-low interest rates with the Federal Reserve poised to soon raise the Fed Funds rate. But we do not expect a big jump in bond yields that might hurt equities. After all, the Fed has repeatedly stated that even after Liftoff, rates are likely to stay below levels it considers to be normal for some time.

The odds are 50/50 on a December rate hike, which may lead to more near-term volatility, but we would welcome the chance to pick up a few more undervalued names for our portfolios, especially as Value stocks historically have outperformed in the 12 months after the first Fed move and dividends should continue to grow as corporate balance sheets and income statements generally are healthy.

Chief Investment Officer
Al Frank Asset Management (AFAM)

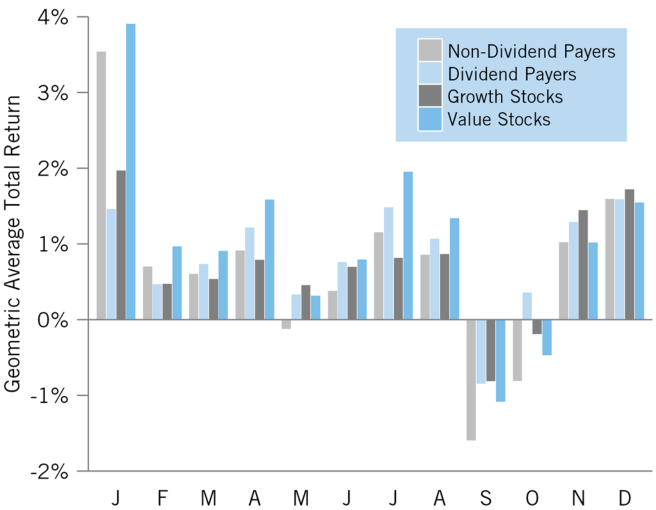
Graphic Detail

Seasonal Favoritism

Though the markets enjoyed a handsome rebound during historically weak October, proving that there are no guarantees that performance precedents will recur, we are pleased to see the calendar roll over to the seasonally favorable six months. Indeed, the period between Halloween and May Day has seen terrific performance in our newsletter portfolios over the past 25 years, not to mention stocks in general going as far back as 1928. Of course, the other six months of the year have been positive on average, so we won't Sell in May and Go Away.

LONG-TERM MONTHLY PERF AVERAGES

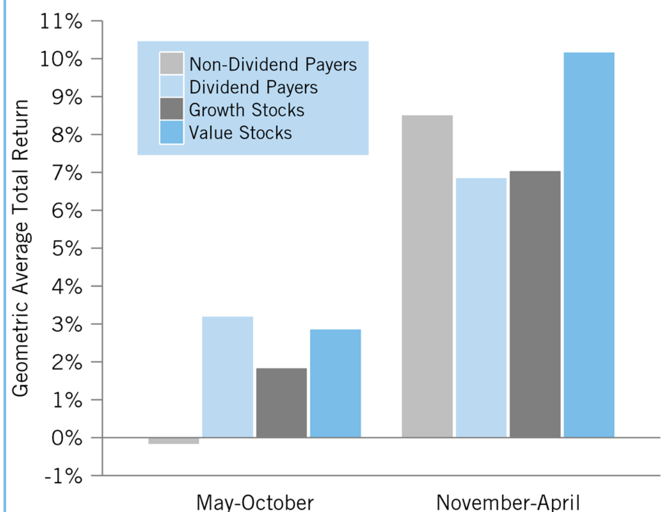
While September lived down to its scary reputation this year, October's big bounce higher bucked the historical trend.



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

SEASONALITY SINCE 1928

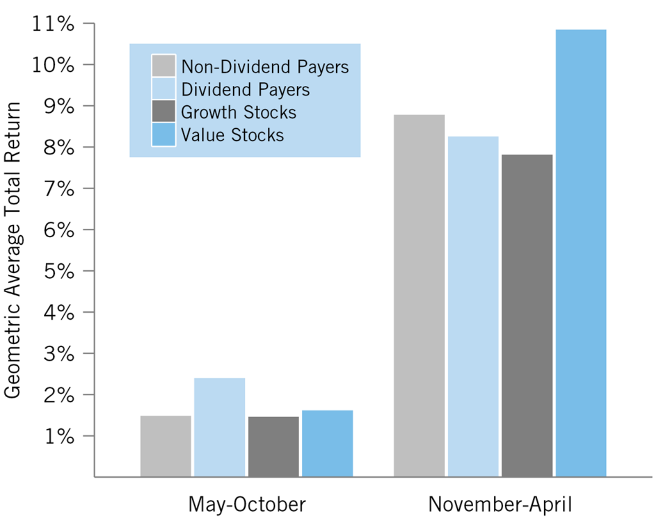
Nice to see that Value has won the performance spoils over the past eight decades, no matter the time of year...



From 04.30.28 through 04.30.15. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

SEASONALITY SINCE 1990

...even as non-dividend payers have held a modest edge, long- and intermediate-term, over dividend payers from November-April.



From 04.30.90 through 04.30.15. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

NEWSLETTER PORTS' NOV-APR PERF

Though the winning streak was interrupted from 2007 through 2009, 23 out of 25 positive years makes for an interesting record.

	TPS	Millennium	PruFolio	Buckingham	Average
90–91	117.29%				117.29%
91–92	25.53%				25.53%
92–93	39.91%				39.91%
93–94	12.23%				12.23%
94–95	16.75%				16.75%
95–96	28.50%				28.50%
96–97	27.13%				27.13%
97–98	23.49%				23.49%
98–99	23.77%				23.77%
99–00	50.96%				50.96%
00–01	6.83%	29.14%			17.99%
01–02	56.45%	38.67%	41.77%		45.63%
02–03	10.78%	4.74%	17.99%		11.17%
03–04	12.62%	10.37%	18.23%	6.93%	12.04%
04–05	11.06%	10.42%	2.39%	10.77%	8.66%
05–06	19.00%	15.88%	18.39%	20.08%	18.34%
06–07	11.07%	11.78%	13.98%	16.10%	13.23%
07–08	-12.87%	-12.89%	-10.59%	-13.94%	-12.57%
08–09	-4.24%	-2.03%	-3.25%	-5.64%	-3.79%
09–10	23.15%	25.28%	19.53%	23.78%	22.94%
10–11	19.21%	18.91%	20.04%	18.13%	19.07%
11–12	11.48%	10.47%	11.48%	10.77%	11.05%
12–13	17.98%	16.74%	14.99%	16.98%	16.67%
13–14	9.62%	9.62%	8.73%	8.46%	9.11%
14–15	3.46%	1.99%	4.47%	3.10%	3.26%
				Geometric average	**20.53%**

SOURCE: Al Frank

Graphic Detail

Presidential Cycle

We must always be careful about drawing significant conclusions from a small number of data points, but it is interesting to look at equity market returns in each of the four years of the Presidential Cycle. Given that the Commander in Chief often makes tough choices early on, while doing everything possible to spur the economy late in the four years to ensure personal or party re-election, we suppose that it should not be a big surprise that equities in general have not performed as well on average in the first couple of years of the presidency and much better on average over the last two years.

To be sure, the fantastic 30%+ returns enjoyed by our four newsletter portfolios in the traditionally weak first years (2009 and 2013) of each of President Obama's terms, not to mention the miserable returns on Value Stocks suffered in the past three traditionally strong third years (Bush W. 2007, Obama 2011 and Obama 2015), illustrate that past performance is no guarantee of future performance or even profitability. And we note that it was just eight years ago that equities, no matter the style, suffered huge losses during the fourth year of our last lame-duck, second-term president.

Nevertheless, there have been more than a few outsized returns in presidential fourth years, so much so that over the past 21 time spans, the average annualized rate of return has been stellar during the period. Happily, our 38-year record tells a similar fourth-year story, even as our first-year actually has been best of all. And while we will look forward to another fourth year arriving in 2016, Value investors likely won't be unhappy to see 2015 depart.

PRESIDENTIAL FOURTH YEAR PERFORMANCE

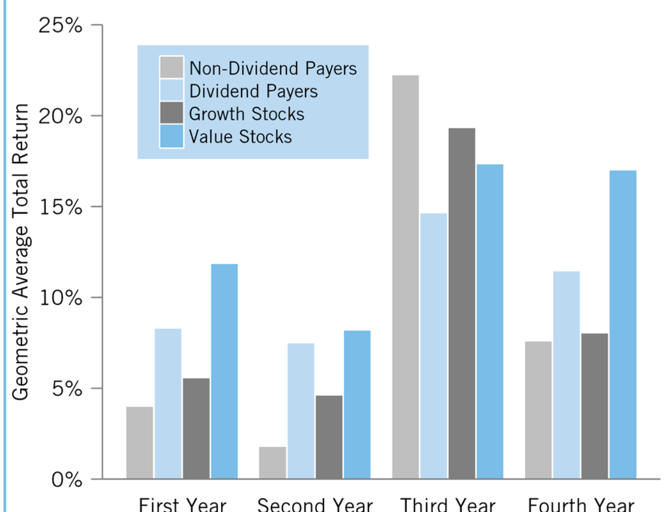
Horrendous 2008 (and 2000 for Growth Stocks and Non-Dividend Payers) notwithstanding, we won't mind the turn of the calendar.

President	Year	Value	Growth	Divs	No Divs	S&P
Hoover	1932	2.9%	-7.2%	-5.2%	0.0%	-8.2%
Roosevelt	1936	65.0%	29.8%	28.7%	53.5%	33.9%
Roosevelt	1940	-7.2%	-6.5%	-5.1%	-12.2%	-9.8%
Roosevelt	1944	44.0%	27.9%	23.6%	41.8%	19.8%
Truman	1948	1.1%	-2.5%	2.5%	-7.6%	5.5%
Truman	1952	14.3%	10.4%	14.5%	9.9%	18.4%
Eisenhower	1956	5.4%	6.6%	8.5%	0.5%	6.6%
Eisenhower	1960	-7.2%	-2.5%	2.0%	-12.5%	0.5%
Kennedy	1964	21.6%	11.5%	18.0%	3.6%	16.5%
Johnson	1968	36.4%	17.5%	14.3%	20.7%	11.1%
Nixon	1972	12.7%	10.6%	16.8%	2.8%	19.0%
Nixon	1976	52.5%	27.6%	29.5%	38.0%	23.8%
Carter	1980	19.1%	44.4%	30.9%	62.7%	32.4%
Reagan	1984	12.0%	-7.5%	5.1%	-18.5%	6.3%
Reagan	1988	28.6%	13.8%	17.8%	14.2%	16.8%
Bush H.	1992	29.7%	5.7%	9.5%	11.1%	7.7%
Clinton	1996	19.4%	16.3%	23.5%	16.3%	23.1%
Clinton	2000	21.9%	-17.1%	12.9%	-30.0%	-9.1%
Bush W.	2004	21.5%	11.3%	11.6%	11.6%	10.9%
Bush W.	2008	-35.6%	-36.3%	-34.8%	-42.6%	-37.0%
Obama	2012	23.5%	15.5%	15.7%	20.8%	16.0%
Geo. Average		**16.1%**	**6.5%**	**10.3%**	**5.7%**	**8.4%**

SOURCE: Al Frank using data from Ibbotson Associates and Professors Eugene F. Fama and Kenneth R. French

PRESIDENTIAL CYCLE PERF BY YEAR

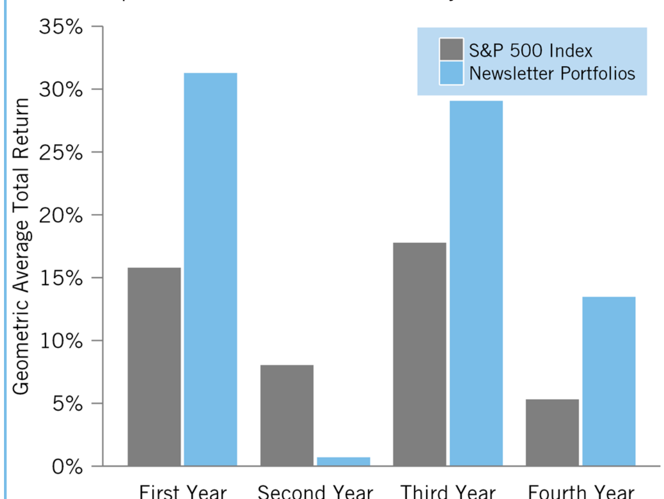
Dividend Payers and Value Stocks are looking forward to 2016, given double-digit historical annualized returns in Year 4.



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

PRESIDENTIAL CYCLE TPS PERFORMANCE

Not as favorable as Year 1 and Year 3, but our historical average newsletter performance hasn't been too shabby in Year 4.



From 12.31.77 through 12.31.14. Newsletter Portfolios are represented by a simple four-portfolio average. Some may not be represented in all years. Geometric average. SOURCE: Al Frank

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
Banks	BBT	BB&T	37.15	49.96	13.1	nmf	1.9	nmf	nmf	2.9%	28,983
	• FITB	Fifth Third Bancorp	19.05	29.28	11.8	nmf	1.3	nmf	nmf	2.7%	15,417
	HSBC	HSBC Holdings PLC	39.07	59.36	9.3	nmf	0.9	nmf	nmf	6.4%	153,015
	KEY	KeyCorp	12.42	19.18	11.3	nmf	1.1	nmf	nmf	2.4%	10,443
Capital Goods	CAT	Caterpillar	72.99	99.92	14.3	0.8	6.5	6.3	387%	4.2%	42,497
	ETN	Eaton PLC	55.91	80.12	12.7	1.2	nmf	9.8	nmf	3.9%	25,875
	TRN	Trinity Industries	27.07	50.10	5.8	0.6	1.5	4.4	121%	1.6%	4,138
Consumer Dur & App	COH	Coach	31.20	48.88	17.3	2.1	5.2	10.2	52%	4.3%	8,658
	MDC	MDC Holdings	25.99	43.33	19.2	0.7	1.0	18.5	72%	3.8%	1,271
Energy	APA	Apache	47.13	92.81	20.5	1.7	1.2	nmf	63%	2.1%	17,815
	BRS	Bristow Group	34.73	57.98	11.4	0.7	0.8	9.6	60%	3.9%	1,213
	ESV	Ensco PLC	16.63	36.19	2.9	0.9	0.4	nmf	68%	3.6%	3,916
	NOV	National Oilwell Varco	37.64	51.96	nmf	1.5	0.3	12.6	215%	4.9%	14,143
	SFL	Ship Finance Int'l	17.09	22.87	9.7	4.5	1.3	14.0	105%	10.3%	1,597
	TOT	Total SA	48.23	76.50	10.4	0.8	1.3	6.1	48%	4.8%	117,613
Food & Staples Retailing	WMT	Wal-Mart Stores	57.24	83.18	11.8	0.4	3.0	6.5	70%	3.4%	183,508
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	45.66	61.22	14.4	0.4	1.8	9.0	39%	2.5%	27,804
Health Care Equip/Srvcs	QSII	Quality Systems	14.05	19.37	20.9	1.7	5.8	10.7	0%	5.0%	855
Insurance	PRU	Prudential Financial	82.50	115.93	8.2	nmf	1.0	nmf	nmf	2.8%	37,208
Materials	ABX	Barrick Gold	7.69	16.82	21.4	1.0	1.4	nmf	179%	1.0%	8,957
	AGU	Agrium	93.07	133.64	15.2	0.8	3.1	9.6	110%	3.8%	12,859
	MOS	Mosaic	33.79	65.03	10.6	1.3	1.4	6.1	45%	3.3%	11,973
Pharma/Biotech/Life Sci	• BIIB	Biogen	290.51	433.40	18.3	6.1	16.3	11.6	164%	0.0%	64,756
	GILD	Gilead Sciences	108.13	155.03	9.7	5.0	25.1	7.9	189%	1.6%	158,692
	JNJ	Johnson & Johnson	101.03	115.60	16.8	4.0	11.5	11.7	58%	3.0%	279,544
	• MRK	Merck	54.66	61.04	15.4	3.9	11.8	14.2	184%	3.3%	153,957
Real Estate	ANH	Anworth Mortgage Asset	4.77	6.79	8.4	nmf	0.7	nmf	nmf	12.6%	490
Retailing	• DSW	DSW	24.94	37.74	13.4	0.9	2.1	5.8	0%	3.2%	2,213
	KSS	Kohl's	46.12	79.90	10.9	0.5	1.6	5.1	81%	3.9%	8,970
	SSI	Stage Stores	9.73	19.07	8.5	0.2	0.7	3.0	20%	6.2%	312
Software & Services	IBM	Int'l Business Machines	140.08	206.94	8.8	1.6	nmf	8.5	nmf	3.7%	135,893
Technology Hardware	AVX	AVX	13.50	18.85	16.3	1.8	1.2	5.6	0%	3.1%	2,268
	BHE	Benchmark Electronics	19.78	29.89	6.2	0.4	0.8	3.9	1%	0.0%	1,012
	GLW	Corning	18.60	30.86	12.2	2.4	1.4	7.9	25%	2.6%	22,004
	STX	Seagate Technology	38.06	64.95	10.2	0.9	15.8	5.4	576%	6.6%	11,381
Telecom Services	T	AT&T	33.51	42.80	12.8	1.5	nmf	10.4	nmf	5.6%	206,120
Transportation	NM	Navios Maritime Holdings	2.11	6.04	nmf	0.4	0.3	12.6	215%	11.4%	220
	NSC	Norfolk Southern	80.03	113.90	14.2	2.2	2.0	8.0	73%	2.9%	23,895
Utilities	• DUK	Duke Energy	71.47	85.96	16.1	2.1	2.1	8.7	158%	4.6%	49,195
	ETR	Entergy	68.16	84.74	13.8	1.0	1.3	6.6	124%	4.9%	12,237

As of 10.31.15. 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

Halloween marking the start of the seasonally favorable six months of the year, we will put to work some of the cash that has accumulated in our four newsletter portfolios. In Buckingham Portfolio, we will buy $6,000 of **Biogen** and **Fifth Third Bancorp**. In TPS Portfolio, we will pick up $29,000 of **DSW Inc**. and **Duke Energy**. In Millennium Portfolio, we will add $10,000 of **KeyCorp** and **Merck**. In PruFolio, we will bring up to $20,000 the positions in **Barrick Gold**, **Eaton**, **Ensco PLC** and **Seagate Tech**. As is our custom, we will wait until November 9 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ABX	Barrick Gold	Materials	7.69	16.82
BIIB	Biogen	Health Care	290.51	433.40
DSW	DSW	Consumer Discretionary	24.94	37.74
DUK	Duke Energy	Utilities	71.47	85.96
ESV	Ensco PLC	Energy	16.63	36.19
ETN	Eaton PLC	Industrials	55.91	80.12
FITB	Fifth Third Bancorp	Financials	19.05	29.28
KEY	KeyCorp	Financials	12.42	19.18
MRK	Merck	Health Care	54.66	61.04
STX	Seagate Technology	Information Technology	38.06	64.95

As of 10.31.15. SOURCE: Al Frank using data from Bloomberg

Barrick Gold (ABX)

Barrick is a global gold mining company. Despite continued weakness in the price of the precious yellow, the company beat Q3 estimates by four cents, posting adjusted EPS of $0.11, on sales of $2.3 billion. ABX was helped by cost reductions, productivity improvements, low oil prices and favorable exchange rates, though the firm took a $476 million goodwill impairment (non-cash) charge and $20 million of extra depreciation, swinging the unadjusted EPS to a $0.23 loss. Gold production totaled 1.66 million ounces at all-in sustaining costs of $771 per ounce, while the company produced 140 million pounds of copper at $1.53 per pound in the quarter. We like the current focus on liquidity as Co-President Jim Gowans said, "We've made strong progress against our targets to reduce debt by $3 billion in 2015 and we expect to meet it. As of today, we repaid a total of about $1.9 billion this year. We now have less than $250 million in maturities due for 2018 and about $5.5 billion for the 2018 to 2023 period, and only $100 million between 2024 and 2032. About $5 billion of our total debt is very long-dated, maturing after 2032." The stock off more than 25% this year, we believe there is plenty of room for recovery, even if metals prices languish near current levels.

Biogen (BIIB)

Biogen is a biotech titan with leading multiple sclerosis and hemophilia therapies. BIIB discovers, develops and delivers innovative therapies for the treatment of neurodegenerative diseases, hematologic conditions and autoimmune disorders. Biogen leads the $20 billion global MS market with Avonex and Tysabri, and the launch of Tecfidera should secure the firm's dominance for the next several years. The company recently turned in an expectation-beating Q3 that included revenue of $2.78 billion and adjusted EPS of $4.48. Analyst expectations were $2.64 billion and $3.77, respectively, and management raised guidance for full-year 2015 EPS to $16.20 - $16.50, up from $15.50 - $15.90. Tempering the excitement, near-term headwinds in its MS franchise led the company to recently announce aggressive cost cutting measures. The cuts weren't easy to make, but the moves will help during a transition period that should eventually see pipeline catalysts drive meaningful upside. We like Biogen's strong free cash flow and its willingness to aggressively buy back shares while it invests in the future.

DSW (DSW)

DSW is a leading branded footwear and accessories retailer that operates 469 stores in 42 states and Puerto Rico, sells products via e-commerce channels and supplies footwear to 376 leased departments for other retailers in the U.S. Shares are down sharply this year, taking another hit as November began after warning that full-year 2015 earnings would be lower than expected due to slower retail traffic and weaker sales in the women's category as a result of warmer-than-normal temperatures. While the near-term will remain trying, we believe the latest sell-off provides an attractive entry point. DSW has been investing in technology to strengthen its omnichannel business strategy, and while it has recently taken its toll on earnings, we think the investments should lead to increased sales and profits in the long term. Also, newly announced cost cuts should be beneficial and we like the firm's growing customer loyalty program. We believe DSW has an opportunity to take market share in the fragmented footwear market and we are pleased that management announced a $200 million share buyback plan following its earnings warning. DSW shares yield more than 3% and the balance sheet is in excellent shape.

Duke Energy (DUK)

Duke is the largest electric power holding company in the U.S., supplying and delivering energy to almost 7.3 million customers. Duke has electric generating capacity in the Carolinas, the Midwest and Florida, along with natural gas distribution services in Ohio and Kentucky. Most recently, Duke announced that it was purchasing Piedmont Natural Gas, operating primarily in the Carolinas and Tennessee. While we weren't wild about the price DUK paid, we can see sensible strategic rationale in acquiring gas distribution with geographic overlap to its existing domestic businesses. We like that the firm's regulated utilities (about 85% of consolidated earnings) provide a stable source of income, while in the coming years, we believe that the company will be able to win increased customer rates from regulators to support its deployed growth capital. While Duke's international assets have been a recent drag on growth and get little credit in the share price, we think that long term they could be a forgotten catalyst. Down some 14% this year, high-quality DUK shares now yield 4.6%.

Ensco PLC (ESV)

Ensco is one of the world's largest offshore oil and gas drillers, with one of the newest jackup and deepwater fleets in the contract drilling industry. In recent operating periods, including its expectation-beating results for Q3 (adjusted EPS $1.34 vs. $0.73 est.), ESV has had to battle a number of industry headwinds, such as falling rig day rates, potential cancellations of contracts from national oil companies and concerns about rig supply coming online in the next few years. We believe that management's expense controls and stout financial position—no debt maturities until Q2 2019, a $2.25 billion untapped revolver and $1.1 billion of cash—put the company ahead of most drillers. Additionally, ESV maintains solid operational performance, as evidenced by 99.8% current utilization for jackups and 95.4% for floaters. The firm has a healthy $6.6 billion backlog and strong reputation that should be beneficial in trying to win new projects in this highly competitive environment. ESV shares are currently trading for 7 times forward earnings estimates.

Eaton PLC (ETN)

Eaton is a power management firm, providing energy-efficient solutions that help customers manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably. We like that ETN's global expansion (50% of sales come from outside the U.S.) has increased its access to rapidly growing emerging markets and their expanding auto markets. We also like that its diversification combines businesses that tend to perform well during different stages of the economic cycle, while steady aftermarket sales provide a more stable income stream.

Despite currency and booking difficulties, ETN has managed to offset slowing volumes by controlling costs and restructuring. With challenges likely to remain, we believe that continued cost-cutting initiatives, along with operating leverage and a proven ability to develop attractive new technologies, should provide stimulus to long-term profits. ETN's improving operating cash flow generation will also give management flexibility to invest in the business, strengthen the balance sheet and return capital to shareholders. ETN trades for less than 13 times forward earnings estimates and yields 3.9%.

Fifth Third Bancorp (FITB)

FITB is a diversified financial services company with $142 billion in assets, operating 1,295 full-service Banking Centers and 2,650 ATMs in the Midwest and Southeastern U.S. FITB operates four main businesses: Commercial Banking, Branch Banking, Consumer Lending and Investment Advisory. The firm has seemingly solid pricing power with considerable market share and a loyal client base in a number of its operating markets. We like that the company has made significant strides in risk management and has an improving balance sheet. We are constructive on FITB's willingness to move early as its industry changes. The bank has been selling, consolidating and closing some of its branches as more of its customers and prospects increasingly utilize online banking. Further, FITB has a hidden gem in its more than 20% ownership stake of payment processor Vantiv (currently worth more than $2 billion). Management seems quite willing to methodically divest this holding over time and use the proceeds to invest in the core business, buy back shares, and cover the dividend. FITB trades for less than 12 times earnings and offers a 2.7% dividend yield.

KeyCorp (KEY)

KeyCorp is a financial services company with $94 billion of assets, providing retail, commercial and investment banking. KEY recently announced the acquisition of First Niagara Financial, which will expand its presence to 15 states and $100 billion in deposits. Stand-alone KeyCorp earned $0.27 per share in Q3, a half-penny ahead of the analyst consensus. KEY benefitted from positive net interest income, fee-based business growth and careful expense management. The bank's net charge-off ratio was 0.27, pointing to high credit quality, and non-performing loans moved lower. We were pleased to see relatively impressive loan growth during the quarter, driven by the commercial loan book. Moreover, investment banking and debt placement revenue held up much better than expected following a strong couple of quarters, and management said that IB still has a strong pipeline of business. We think KEY continues to offer investors solid growth potential, thoughtful expense management and desirable capital returns, all at a good value. Shares yield 2.4%.

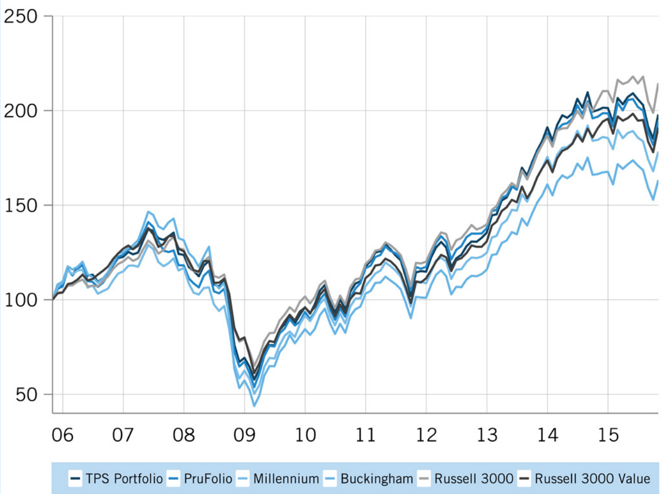
Merck (MRK)

Merck is a global pharmaceutical giant focused on discovering, developing and marketing drugs for respiratory, immunology, cardiovascular, diabetes, infectious diseases, oncology and other ailments. Merck is also a global leader in vaccines and operates an animal health division. The company has seen its sales slow over the past few years, enduring patent losses for some of its top drugs. That said, with a wide array of high-margin drugs, a strong lineup of new products and a pipeline that creates both near- and long-term opportunities, we think Merck will produce attractive returns on its invested capital in the years to come. The firm generates solid free cash flow and boasts a track record of returning cash to shareholders, while management is on the hunt for acquisitions and drug-licensing deals that could bolster its drug development. We like that MRK's balanced portfolio of medicines, vaccines and animal health products provides consistent income and that the shares yield 3.3%.

Seagate Technology (STX)

Seagate is a designer and manufacturer of disk and solid-state storage drives (SSDs). Shares are down some 40% this year as slow PC sales and competition have weighed on results, with the company announcing last month that fiscal Q1 2016 sales and gross margins would be on the low end of earlier guidance. Nevertheless, we still like Seagate's strong cash flow generation and progress on cost control initiatives. "Looking ahead, we are confident that our nearline product portfolio will be fully competitive by our fiscal third quarter," said STX CEO Steve Luczo. Although STX has an effective duopoly with Western Digital in the conventional hard drive space, the company doesn't have the same advantage with solid-state drives. To bridge the gap, Seagate and Micron reached an agreement in February to jointly develop next-generation SSDs and NAND memory, a decent hedge in the event that solid state suddenly takes off in popularity. We think Seagate is extremely undervalued as the stock yields 6.6% and trades for 10 times trailing-12-month earnings.

NEWSLETTER PORTFOLIO PERFORMANCE



	Oct	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	6.80	-2.60	-1.88	13.24	11.45	5.02
Millennium	6.19	-3.84	-3.34	13.48	12.14	5.96
PruFolio	6.97	-2.05	-1.15	12.97	12.92	6.88
TPS	6.96	-1.69	-1.13	14.86	12.77	7.07
Major Indexes						
Russell 3000	7.90	2.02	4.49	16.09	14.14	7.93
Russell 3000 Value	7.39	-2.34	0.24	14.29	13.04	6.69
S&P 500	8.44	2.70	5.19	16.19	14.32	7.85
Dow Jones Industrial Avg	8.59	1.04	4.06	13.22	12.51	8.18

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.68	9.48	Russell 3000
Millennium	12.31.99	9.02	4.69	Russell 3000
PruFolio	12.29.00	13.15	5.55	Russell 3000
TPS	03.10.77	18.00	10.90	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,840 stock recommendations have returned, on average, an annualized 17.18%, not including dividends.

As of 10.31.15. 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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