

the Prudent Speculator 590

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“There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don’t know. But there are also unknown unknowns. There are things we don’t know we don’t know.” It has been nearly 14 years since noted philosopher Donald Rumsfeld offered these words of wisdom, but we think the former U.S. Secretary of Defense provides timeless comments that are apt today for market participants as we now seem to have the *known known* of a Federal Reserve interest rate hike coming two weeks hence.

Never mind that the odds of Fed Liftoff at the December 15-16 FOMC meeting now stand at 72%, with June 2016 the first time the probability exceeds 90%, market pundits are front and center with not surprisingly different predictions in regard to the ramifications for the U.S. financial markets. For example, Michael Thompson, the chairman of S&P Investment Advisory Services, proclaimed last week, “The investment committee at my firm estimates that roughly \$1.3 trillion in retiree assets are currently misallocated into equities based on the historic 16-year average price-to-earnings ratio for the S&P 500. This has resulted in stock price inflation that has kept equity valuations aloft even as quarterly corporate earnings results have begun to show signs of weakness.”

Mr. Thompson’s conclusion: “As these misallocated investments stream back into the fixed-income markets once the Fed starts raising rates, the supply-demand imbalance will drive up prices and push down yields faster than the Fed can raise them. Essentially, every time the Fed introduces any additional yield into the marketplace, it will be immediately swallowed up by retiree (or near-retiree) investors who need to de-risk their portfolios.”

We concede that average P/E ratios are elevated. But we fault the logic that retirees who have flocked to stocks for income will become so enamored of bonds that they will send prices up so that yields return to levels at which they previously had little interest, while driving stock prices down so that dividend yields they had been finding attractive would then become even more tempting.

Frankly, there seems to be a *known unknown* involving asset allocation as the widely held belief that folks have shoveled money into equities is disputed by empirical evidence. Doeswijk, Lam and Swinkels compiled the “Global Multi-Asset Portfolio,” in which the trio estimated the market capitalization for various asset classes. Their findings show a 41.9% allocation to equities and 52.0% to bonds (6.1% to real estate) at the end of 2014, compared to an average weighting from 1959-2014 of 51.7% in stocks and 45.0% in fixed income. Given that there has been massive government and corporate debt issuance in recent years, while stock buyback and acquisition activity (supported by extremely low borrowing costs) has been tremendous, those allocation numbers seem reasonable.

And the same view is shared by Thomas Lee, strategist with Fundstrat Global Advisors, who calculates that American household savings allocated to stock investment has declined by 18.5% since 2007. He argues, “This is the largest liquidation in history and surpasses the 10% liquidation during the decade from 1979 to 1989 that was the precedent decade before the massive inflows into equities in the 1990s.” And, with many companies seeing their stocks yield more than their medium-term debt instruments, Mr. Lee believes that Liftoff actually will lead investors to dump bonds in favor of equities.

To be sure, we are in the camp that there is little reason to fear the Fed, but we are not so cavalier as to avow that there are no *unknown unknowns* on the horizon...so we do not mind having a few extra dollars in our portfolios to take advantage of specific opportunities that will inevitably arise. That said, we like the *known known* that dividend-paying value stocks, like those that we have long favored, have performed well, on average, following Liftoff.

“Real knowledge is to know the extent of one’s ignorance.”
—Confucius



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q3 Season

Strength in the dollar, as well as the plunge in oil and other commodity prices, not to mention moderate domestic and global economic growth, continued to hinder top- and bottom-line growth in the third quarter. Despite

those headwinds, the major market averages performed very well during Q3 earnings reporting season, even as Standard & Poor's calculated that Q3 bottom-up operating EPS for the S&P 500 declined by 13.9%. Relative to

Industry Group	Ticker	Company	09.15 Act EPS	09.14 Act EPS	09.15 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Automobiles & Components	GM	General Motors Co	1.50	0.97	1.19	4.84	5.34	6.8	152,352	147,975	-2.9%
	GT	Goodyear Tire & Rubber Co	0.99	0.87	0.97	2.96	3.79	9.2	16,736	16,104	-3.8%
	HMC	Honda Motor Co Ltd	0.58	0.76	0.62	2.55	2.66	12.3	117,251	121,924	4.0%
Banks	BBT	BB&T	0.70	0.71	0.69	2.84	3.04	12.7	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.39	0.43	0.40	1.61	1.65	12.5	nmf	nmf	nmf
	HSBC	HSBC Holdings PLC	1.14	1.29	0.99	4.21	3.28	12.2	nmf	nmf	nmf
	JPM	JPMorgan Chase & Co	1.32	1.62	1.38	5.63	5.94	11.2	nmf	nmf	nmf
	KEY	KeyCorp	0.27	0.26	0.27	1.10	1.15	11.4	nmf	nmf	nmf
	ONB	Old National Bancorp	0.29	0.28	0.25	1.03	1.03	14.4	nmf	nmf	nmf
	PNC	PNC Financial Services Group	1.72	1.72	1.78	7.05	7.30	13.1	nmf	nmf	nmf
	WFC	Wells Fargo & Co	1.05	1.02	1.04	4.14	4.25	13.0	nmf	nmf	nmf
Capital Goods	ARII	American Railcar Industries	1.39	1.12	1.39	5.63	5.58	10.1	779	784	0.7%
	CAT	Caterpillar	0.75	1.72	0.77	5.09	3.51	20.7	50,225	43,988	-12.4%
	DE	Deere & Co	1.08	1.83	0.75	5.76	4.23	18.8	28,863	24,197	-16.2%
	ETN	Eaton PLC	0.97	1.29	0.97	4.41	4.28	13.6	21,363	20,480	-4.1%
	FLR	Fluor	1.21	1.15	1.12	4.58	3.71	13.1	19,199	18,634	-2.9%
	TPC	Tutor Perini	0.68	0.73	0.78	1.58	2.37	8.0	4,922	5,378	9.3%
	TRN	Trinity Industries	1.32	0.90	1.16	4.64	4.01	6.8	6,507	6,153	-5.4%
Commercial Services	MAN	ManpowerGroup	1.61	1.61	1.55	5.24	5.70	15.8	19,497	20,273	4.0%
	WM	Waste Management	0.74	0.72	0.71	2.53	2.73	19.7	13,152	13,340	1.4%
Consumer Dur & App	COH	Coach	0.41	0.53	0.40	1.80	1.93	16.5	4,183	4,512	7.9%
	MDC	MDC Holdings	0.36	0.38	0.44	1.35	1.94	13.5	1,836	2,237	21.9%
	WHR	Whirlpool	3.45	3.04	3.29	11.81	13.50	12.0	21,334	21,349	0.1%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	2.84	2.20	2.71	4.20	5.97	15.5	8,215	8,919	8.6%
Diversified Financials	BK	Bank of New York Mellon	0.74	0.64	0.71	2.76	2.96	14.8	nmf	nmf	nmf
	COF	Capital One Financial	2.10	1.94	1.94	7.52	7.76	10.1	nmf	nmf	nmf
	CS	Credit Suisse Group AG	0.55	0.74	0.53	2.24	1.87	11.8	nmf	nmf	nmf
	GS	Goldman Sachs Group	2.64	4.57	3.00	17.75	18.20	10.4	nmf	nmf	nmf
Energy	APA	Apache	-0.05	1.38	-0.38	0.87	-0.22	nmf	8,284	6,739	-18.6%
	BHI	Baker Hughes	-0.05	1.02	-0.14	1.18	-0.27	nmf	18,983	13,720	-27.7%
	BRS	Bristow Group	0.04	0.87	0.70	2.21	2.60	11.7	1,824	1,811	-0.7%
	DO	Diamond Offshore Drilling	1.02	0.96	0.60	2.90	0.98	23.2	2,539	1,823	-28.2%
	E	Eni SpA	-0.16	0.86	0.12	0.65	1.38	23.4	105,092	73,465	-30.1%
	ESV	Enscoc PLC	1.34	1.87	0.73	5.69	2.70	6.3	4,395	3,358	-23.6%
	HAL	Halliburton Co	0.31	1.19	0.27	2.43	0.96	41.5	27,321	21,557	-21.1%
	HFC	HollyFrontier	1.82	0.88	1.72	4.55	4.38	11.0	14,577	12,631	-13.4%
	MRO	Marathon Oil	-0.20	0.57	-0.41	-0.93	-1.09	nmf	6,817	5,670	-16.8%
	NOV	National Oilwell Varco	0.61	1.62	0.56	4.21	1.54	24.2	17,744	11,262	-36.5%
	SSE	Seventy Seven Energy	-0.93	0.18	-0.84	-2.49	-3.75	nmf	1,433	798	-44.3%
	TDW	Tidewater	0.20	1.22	-0.02	1.79	-1.84	nmf	1,289	958	-25.7%
	TNP	Tsakos Energy Navigation Ltd	0.40	0.04	0.36	1.50	1.58	4.9	582	505	-13.2%
	XOM	Exxon Mobil	1.01	1.89	0.89	4.74	3.72	21.9	260,574	263,960	1.3%
WMT	Wal-Mart Stores	0.99	1.15	0.98	4.71	4.26	13.8	484,028	490,703	1.4%	
Food & Staples Retailing	ADM	Archer-Daniels-Midland Co	0.60	0.81	0.70	2.97	2.98	12.3	72,151	71,974	-0.2%
Food Bev & Tobacco	TSN	Tyson Foods	0.83	0.87	0.88	3.15	3.60	13.9	41,373	39,558	-4.4%
	ABT	Abbott Laboratories	0.54	0.62	0.53	2.24	2.30	19.5	20,573	21,226	3.2%
Health Care Equip/Srvcs	AET	Aetna	1.90	1.79	1.77	7.56	7.77	13.2	60,059	62,042	3.3%
	CAH	Cardinal Health	1.38	1.00	1.10	4.77	5.39	16.1	106,514	120,350	13.0%
	QSH	Quality Systems	0.17	0.12	0.14	0.67	0.64	25.4	499	518	3.6%
	KMB	Kimberly-Clark	1.51	1.61	1.49	5.69	6.05	19.7	18,880	18,782	-0.5%

As of 11.30.15. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

subdued expectations, Corporate America turned in decent Q3 reports as Bloomberg found that the number of companies in the S&P 500 that exceeded expectations was 69.6%, compared to 21.8% that trailed forecasts and 8.6% that met projections. In Q3 2014, the Beat/Miss/Match figures were 74.5%/16.6%/8.8%. Of the 101 recommended stocks presented below, 63% topped estimates.

As always, investors were keenly focused on the forward outlook and management teams remained cautious in their guidance. Standard & Poor's presently projects that bottom-up operating EPS for the S&P 500 will now decline to \$106.67 in 2015, down 5.6% from \$113.01 in 2014, but S&P's admittedly aggressive current estimate for 2016 calls for an 18.6% jump in EPS to \$126.50.

Industry Group	Ticker	Company	09.15 Act EPS	09.14 Act EPS	09.15 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Household Products	ALL	Allstate	1.52	1.39	1.32	5.33	5.13	12.2	nmf	nmf	nmf
Insurance	AXS	Axis Capital Holdings Ltd	0.51	1.27	0.81	3.97	4.32	13.0	nmf	nmf	nmf
	MET	MetLife	0.62	1.60	0.76	5.00	5.88	8.7	nmf	nmf	nmf
	PRU	Prudential Financial	2.40	2.20	2.42	10.22	10.01	8.6	nmf	nmf	nmf
	TRV	Travelers Cos	2.93	2.61	2.26	11.05	9.67	11.9	nmf	nmf	nmf
	ABX	Barrick Gold	0.11	0.19	0.07	0.36	0.41	18.0	9,368	8,521	-9.0%
Materials	AGU	Agrium	0.79	0.63	0.67	6.28	7.50	13.2	15,093	16,147	7.0%
	AUY	Yamana Gold	-0.02	-0.01	-0.02	-0.09	-0.01	nmf	1,891	1,953	3.3%
	CE	Celanese	1.50	1.61	1.37	6.08	6.21	11.4	5,899	5,804	-1.6%
	FCX	Freeport-McMoRan	-0.15	0.64	-0.09	0.18	0.56	14.7	17,317	17,941	3.6%
	MOS	Mosaic Co	0.62	0.56	0.53	3.24	2.64	12.0	9,111	8,856	-2.8%
	NEM	Newmont Mining	0.24	0.50	0.17	1.13	0.79	23.3	7,930	7,574	-4.5%
	RYAM	Rayonier Advanced Materials	0.78	0.53	0.44	2.03	0.99	11.3	948	883	-6.8%
Media	CMCSA	Comcast	0.80	0.73	0.80	3.20	3.54	17.2	72,997	76,891	5.3%
	DIS	Walt Disney Co	1.20	0.89	1.14	5.15	5.66	20.0	52,465	56,009	6.8%
	AMGN	Amgen	2.44	1.61	2.38	9.24	10.21	15.8	21,457	22,003	2.5%
Pharma/Biotech/Life Sci	BIIB	Biogen	4.41	3.81	3.77	15.91	17.45	16.4	10,565	11,096	5.0%
	GILD	Gilead Sciences	3.06	1.67	2.88	11.11	11.88	8.9	31,447	31,532	0.3%
	JNJ	Johnson & Johnson	1.49	1.50	1.45	6.03	6.26	16.2	70,517	71,578	1.5%
	MRK	Merck & Co	0.96	0.90	0.92	3.54	3.67	14.5	39,765	40,147	1.0%
	PFE	Pfizer	0.60	0.57	0.51	2.21	2.32	14.1	47,922	53,536	11.7%
Real Estate	SNY	Sanofi	0.90	0.98	0.87	3.29	3.15	14.0	43,757	43,173	-1.3%
	ANH	Anworth Mortgage Asset	0.14	0.13	0.15	0.58	0.56	8.5	nmf	nmf	nmf
	RYN	Rayonier	0.17	0.27	0.11	0.40	0.40	60.0	nmf	nmf	nmf
	DSW	DSW	0.44	0.56	0.43	1.74	1.50	15.3	2,588	2,665	3.0%
	Retailing	KSS	Kohl's	0.75	0.70	0.69	4.28	4.52	10.4	19,154	19,469
PETS		PetMed Express	0.22	0.19	0.20	1.00	1.04	16.2	228	227	-0.2%
SPLS		Staples	0.35	0.37	0.35	0.95	0.92	13.1	21,448	20,852	-2.8%
SSI		Stage Stores	-0.29	-0.16	-0.19	1.02	0.77	10.0	1,627	1,556	-4.4%
TGT		Target	0.86	0.54	0.86	4.68	5.03	14.4	73,910	75,374	2.0%
Semis & Cap Equipment	INTC	Intel	0.62	0.66	0.62	2.35	2.33	14.9	55,162	57,400	4.1%
	CA	CA	0.52	0.53	0.56	1.98	2.47	11.4	4,096	4,046	-1.2%
	Software & Services	IBM	Int'l Business Machines	3.34	3.68	3.30	15.90	14.94	9.3	83,796	80,388
MSFT		Microsoft	0.67	0.65	0.59	2.68	2.80	19.4	90,758	93,616	3.1%
AAPL		Apple	1.96	1.42	1.88	9.20	9.82	12.1	233,715	244,692	4.7%
Technology Hardware	BHE	Benchmark Electronics	0.41	0.43	0.40	1.60	1.58	13.6	2,625	2,464	-6.1%
	BRCD	Brocade Comm Systems	0.20	0.19	0.24	0.81	0.99	9.5	2,263	2,277	0.6%
	CSCO	Cisco Systems	0.50	0.41	0.56	1.96	2.27	12.0	49,598	49,217	-0.8%
	ERIC	LM Ericsson	0.16	0.16	0.19	0.64	0.72	13.4	29,658	28,224	-4.8%
	GLW	Corning	0.34	0.40	0.35	1.52	1.39	13.4	9,284	9,595	3.3%
	IM	Ingram Micro	0.67	0.62	0.63	2.63	3.11	10.0	45,670	44,767	-2.0%
	LXK	Lexmark Int'l	0.57	1.05	0.57	3.46	3.74	9.2	3,605	3,608	0.1%
	QCOM	Qualcomm	0.78	1.14	0.86	3.85	4.09	11.9	25,281	22,979	-9.1%
	STX	Seagate Technology PLC	0.54	1.34	0.49	3.74	3.62	9.9	12,878	11,886	-7.7%
	T	AT&T	0.74	0.63	0.69	2.61	2.82	11.9	139,121	168,680	21.2%
Telecom Services	CSX	CSX	0.52	0.51	0.50	2.02	2.04	13.9	12,222	12,048	-1.4%
Transportation	NSC	Norfolk Southern	1.57	1.79	1.41	5.62	5.70	16.7	10,863	10,775	-0.8%
	CWT	California Water Service	0.52	0.70	0.67	1.00	1.34	16.8	587	601	2.3%
Utilities	DUK	Duke Energy	1.47	1.40	1.52	4.52	4.62	14.7	23,094	26,403	14.3%
	ETR	Entergy	1.90	1.68	2.02	5.16	5.69	11.7	11,836	12,731	7.6%

As of 11.30.15. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

Recommended Stocks

In this space, we list each month 40 of our most attractively priced recommended stocks. All trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to

have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

Industry Group	Ticker ¹	Company	Price	Target Price	Price Multiples			EV/ EBITDA ³	Debt/ TE ⁴	Div Yld	Mkt Cap
					EPS	Sales	TBV ²				
Banks	BBT	BB&T	38.62	49.96	13.6	nmf	2.0	nmf	nmf	2.8%	30,129
	CM	Canadian Imperial Bank	75.20	97.84	8.1	nmf	1.7	nmf	nmf	4.5%	29,880
	HSBC	HSBC Holdings PLC	39.90	60.03	9.5	nmf	0.9	nmf	nmf	6.3%	156,288
Capital Goods	CAT	Caterpillar	72.65	99.92	14.3	0.8	6.5	6.3	387%	4.2%	42,299
	• CMI	Cummins	100.37	142.48	10.8	0.9	2.6	6.2	23%	3.9%	17,828
	TRN	Trinity Industries	27.15	50.10	5.9	0.6	1.5	4.4	121%	1.6%	4,150
Consumer Dur & App	COH	Coach	31.77	45.63	17.7	2.1	5.2	10.8	52%	4.2%	8,817
	MDC	MDC Holdings	26.23	43.33	19.4	0.7	1.0	18.6	72%	3.8%	1,282
Energy	BRS	Bristow Group	30.55	53.21	13.8	0.6	0.7	13.0	65%	4.5%	1,067
	ESV	Ensco PLC	17.12	36.19	3.0	0.9	0.5	nmf	68%	3.5%	4,031
	NOV	National Oilwell Varco	37.34	51.96	nmf	1.2	0.2	13.5	188%	4.9%	14,030
	RDS/A	Royal Dutch Shell PLC	49.76	82.01	12.3	0.3	1.0	5.0	33%	6.4%	158,311
	SFL	Ship Finance Int'l Ltd	17.32	22.84	8.4	4.2	1.4	14.1	132%	10.4%	1,618
	TOT	Total SA	49.45	76.50	11.1	0.8	1.4	6.5	48%	4.7%	120,588
Food & Staples Retailing	WMT	Wal-Mart Stores	58.84	80.07	12.5	0.4	3.0	6.8	71%	3.3%	188,638
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	36.49	58.15	12.3	0.3	1.5	8.5	40%	3.1%	21,775
Insurance	PRU	Prudential Financial	86.55	116.89	8.5	nmf	1.0	nmf	nmf	3.2%	38,861
Materials	ABX	Barrick Gold	7.34	15.21	20.4	0.9	1.3	nmf	179%	1.1%	8,550
	MOS	Mosaic	31.64	63.92	9.8	1.2	1.4	6.3	47%	3.5%	11,154
Pharma, Biotech, Life Sci	BIIB	Biogen	286.86	433.40	18.0	6.1	16.1	11.4	164%	0.0%	63,942
	GILD	Gilead Sciences	105.96	155.03	9.5	4.9	26.4	6.8	378%	1.6%	152,707
	JNJ	Johnson & Johnson	101.24	115.60	16.8	4.0	11.5	11.7	58%	3.0%	280,125
	MRK	Merck & Co	53.01	60.91	15.0	3.7	36.1	12.7	588%	3.5%	148,086
	SNY	Sanofi	44.22	65.59	14.7	6.0	38.3	nmf	nmf	3.0%	115,453
Real Estate	ANH	Anworth Mortgage Asset	4.81	6.79	8.3	nmf	0.8	nmf	nmf	12.5%	482
	• GEO	GEO Group	29.32	33.19	15.4	nmf	13.7	nmf	nmf	8.9%	2,189
Retailing	DSW	DSW	22.96	34.98	13.2	0.8	2.0	5.9	0%	3.5%	2,038
	KSS	Kohl's	47.13	77.32	11.0	0.5	1.7	5.3	84%	3.8%	9,167
	SSI	Stage Stores	7.74	12.99	7.6	0.2	0.6	3.3	39%	7.8%	248
Software & Services	IBM	Int'l Business Machines	139.42	206.94	8.8	1.6	nmf	8.5	nmf	3.7%	135,253
Technology Hardware	AVX	AVX	13.49	18.85	16.3	1.8	1.2	6.2	0%	3.1%	2,263
	BRCD	Brocade Comm Systems	9.39	14.79	11.6	1.7	4.6	5.6	95%	1.9%	3,891
	CSCO	Cisco Systems	27.25	36.21	13.9	2.8	4.2	7.5	66%	3.1%	138,323
	GLW	Corning	18.73	30.86	12.3	2.4	1.4	8.0	25%	2.6%	22,157
	STX	Seagate Technology PLC	35.94	63.06	9.6	0.8	14.9	5.1	576%	7.0%	10,747
	Telecom Services	T	AT&T	33.67	42.80	12.9	1.5	nmf	10.4	nmf	5.6%
Transportation	CSX	CSX	28.43	38.17	14.1	2.3	2.4	7.6	87%	2.5%	27,718
	NM	Navios Maritime Holdings	1.59	4.29	nmf	0.3	0.2	13.5	212%	0.0%	166
Utilities	DUK	Duke Energy	67.76	83.94	15.0	2.0	2.0	8.5	160%	4.9%	46,642
	ETR	Entergy	66.63	85.30	12.9	1.0	1.4	10.4	149%	5.1%	11,886

As of 11.30.15. N/A=Not applicable. nmf=Not meaningful. ¹ =First-time recommendation. ²Tangible book value. ³Enterprise value-to-earnings before interest taxes depreciation and amortization. ⁴Tangible equity. SOURCE: AI Frank using data from Bloomberg

Portfolio Builder

Research Team Favorites

The *Prudent Speculator* follows an approach to investing that focuses on **broadly diversified** investments in **undervalued** stocks for their **long-term** appreciation potential. Does that mean we build portfolios of 20 stocks...30...? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which," but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

As for the "in which" part, readers should know we discriminate among potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We buy only those stocks we find undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. The prices at which we'll buy and sell stocks incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal 3-to-5-year investing time horizon.

Each month in this column, we suggest to readers a group of ten stocks with which to populate portfolios. The list could serve as a portfolio foundation for new investors or as a pick-list for folks already maintaining well-diversified holdings. While other themes may be featured over time, our ongoing consolidation program has created opportunities (i.e. proceeds of sales) to simply add stocks each month to our newsletter portfolios.

Note that we are in no way suggesting that these stocks replace those featured in prior months as we will always issue a *Sales Alert* should we choose to exit a position.

This Month's Theme

Continuing to deploy the modest cash positions in our newsletter portfolios, we will buy \$29,000 of **Entergy, Geo Group** and **Sanofi** in TPS Portfolio. In PruFolio, we will pick up \$20,000 of **Brocade Communications** and **Cummins**, while we will bring the position in **Ship Finance** up to that amount. Finally, we will add \$10,000 of **Gilead Sciences** in Millennium Portfolio and we will raise the ownership in **Mosaic** to \$6,000 in Buckingham Portfolio. We already hold sufficient positions in **Cisco Systems** and **Prudential Fin'l**. We will transact on December 8.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
BRCD	Brocade Comm Systems	Information Technology	9.39	14.79
CMI	Cummins	Industrials	100.37	142.48
CSCO	Cisco Systems	Information Technology	27.25	36.21
ETR	Entergy	Utilities	66.63	85.30
GEO	GEO Group	Financials	29.32	33.19
GILD	Gilead Sciences	Health Care	105.96	155.03
MOS	Mosaic	Materials	31.64	63.92
PRU	Prudential Financial	Financials	86.55	116.89
SFL	Ship Finance Int'l Ltd	Energy	17.32	22.84
SNY	Sanofi	Health Care	44.22	65.59

As of 11.30.15. SOURCE: AI Frank using data from Bloomberg

Brocade Comm Systems (BRCD)

Brocade Communications is a designer and manufacturer of switches and networking equipment for use in storage area networks (SAN). While fiscal Q4 2015 quarterly results were decent, including adjusted earnings per share of \$0.26 (\$0.24 est.) and sales of \$588 million (\$575 million est.), the outlook was markedly more cautious than expected. For Q1 2016, Brocade expects adjusted EPS of \$0.23 to \$0.25, compared to forecasts of \$0.27, while revenue for the period is likely to fall in the range of \$550 million to \$570 million, versus expectations of \$582 million. Despite the macroeconomic challenges that seem likely to weigh on near-term results, we remain bullish on Brocade's long-term business prospects and appreciate that management continues to return cash to stockholders via share repurchases (\$344 million in fiscal 2015) and dividends, the latter translating into a 1.9% dividend yield. We also are fond of the current sub-12 P/E ratio.

Cummins (CMI)

Cummins designs, manufactures, distributes and services diesel and natural gas engines and related technologies, including fuel systems, controls, air handling, filtration, emission solutions and electrical power generation systems. Shares are down almost 35% this year as softening demand, currency headwinds and downgrades by Wall Street analysts have taken their toll. While the U.S. truck market has weakened and falling commodity prices are hurting the off-highway business, we believe the big

sell-off provides a compelling long-term entry point. We like that management is moving swiftly to control costs and right size capacity. We also like the company's superb balance sheet and upper-echelon credit rating. More than 50% of sales are derived from outside North America, and we believe CMI will benefit from its leading technology in truck engines, helping gain further market share in emerging markets. Also, we see attractive longer-term demand for its diesel and natural gas engines as customers work to meet stricter emissions standards. While global economic uncertainty will push out recovery and expansion of some of its businesses, the stock now trades for less than 11 times earnings estimates and yields 4% or so.

Cisco Systems (CSCO)

Networking giant Cisco Systems and Swedish telecom equipment manufacturer LM Ericsson last month announced a plan to partner, stopping short of a merger in an unconventional alliance that should help the duo better battle rivals and unlock additional value for shareholders. Cisco's fiscal Q1 2016 results were modestly ahead of estimates, but the outlook was softer than expected as the strong U.S. dollar and weaker global macroeconomic environment will be drags. Management expects sales growth between 0% and 2%, a gross margin improvement to 62% to 63% and EPS in the \$0.53 to \$0.55 range. While there is little doubt that Cisco has worked hard the last few years to overcome a tough economic backdrop in many geographies, we believe that management's decision to trim fat and focus on its core strengths has been worthwhile. Moreover, CSCO can lead with its great product pipeline and loyal customer base. We think that CSCO shares trade at a relative discount with a forward 12-month P/E ratio below 14 and a 3.1% dividend yield.

Entergy (ETR)

Entergy is an integrated energy company primarily engaged in electric power production and retail distribution operations. Entergy owns and operates power plants with 30,000 megawatts of electric generating capacity, including more than 10,000 megawatts of nuclear power, making it one of the nation's leading nuclear generators. The utility delivers electricity to 2.8 million customers in Arkansas, Louisiana, Mississippi and Texas, while its nuclear plants are located in the northeast United States. Shares are down more than 20% this year. In Q3, ETR reported EPS of \$1.90, versus estimates of \$2.02. Management bumped up its 2015 EPS guidance of \$5.50 to \$6.10,

with shares currently trading at less than 12 times the midpoint. Entergy also inked a deal to sell its Rhode Island State Energy Center for \$490 million and confirmed the closure of its Pilgrim and Fitzpatrick nuclear facilities, even as the potential for environmental restrictions on coal-fired power plants and carbon dioxide emissions make nuclear power more appealing. ETR yields 5.1%.

GEO Group (GEO)

GEO is a fully integrated REIT specializing in the design, financing, development and operation of correctional, detention and community reentry facilities around the globe. GEO provides diversified correctional and electronic monitoring services to government agencies worldwide with operations in the U.S., Australia, South Africa, and the U.K. GEO shares are down more than 30% since the spring as U.S. political rhetoric about private corrections companies and concerns about potential changes in laws giving more lenient sentences to non-violent offenders have taken their toll. It is worth noting, however, that only 10% of the domestic corrections market is privatized, although numerous facilities (both state and federal) are operating over capacity and many states have an aging prison infrastructure. We like that GEO has plenty of opportunity in the heavily regulated, long-term contracted corrections segment both domestically and internationally, and that it also continues to develop a more diversified set of organic growth opportunities including rehabilitation, reentry and electronic monitoring. Also, GEO was recently awarded a new five-year contract under the Department of Homeland Security's pilot program to house families going through the immigration review process. GEO trades at less than 10 times full-year adjusted funds from operations and carries a dividend yield near 9%.

Gilead Sciences (GILD)

Gilead is a research-based biopharma focusing on areas of unmet medical need. Gilead's portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions. GILD turned in another strong quarter, reporting better-than-expected Q3 revenue of \$8.3 billion and EPS of \$3.22, versus respective forecasts of \$7.9 billion and \$2.88. Additionally, its two Hepatitis C drugs, Sovaldi and Harvoni, generated \$4.8 billion in sales during Q3, topping estimates. For the year, Gilead again raised its outlook for net product sales, this time to a range of \$30 billion to \$31

billion. Although there continues to be public debate over pricing, many believe GILD's Hep C drugs will remain the preferred choice of doctors due to better clinical data and significantly friendlier administration. Additionally, we like Gilead's leading position in treating the HIV virus. Along with management's work to further expand its pipeline and diversify the company, we are constructive on the massive \$15 billion share repurchase program and attractive valuation. Unlike many biotechs, GILD trades for less than 9 times estimated earnings and yields 1.6%.

Mosaic (MOS)

Mosaic is the largest producer of phosphate fertilizers in the world and is one of the leaders in the production of potash, feed ingredients and industrial products. Shares have pulled back more than 30% since the summer as short-sighted market players bailed out due to weak crop nutrient prices and concerns about difficult farm economics. Despite operating challenges, the company's continued efficiency improvements are paying off. While Q3 revenue of \$2.1 billion came in short of estimates, Mosaic's adjusted quarterly EPS of \$0.62 was 17% greater than the \$0.53 expected by investors. We are also constructive on the potential of the firm's growing specialty fertilizer products (MicroEssentials). The sailing will not be smooth, but we believe there is a plenty of long-term potential in the fertilizer markets as higher crop yields become increasingly important as the global population expands, less farmable land is available and more people in emerging economies move up the socioeconomic ladder adding more protein to their diets (which requires more grains to feed the cattle, pigs, etc.). MOS trades for less than 11 times forward earnings estimates and yields 3.5%.

Prudential Financial (PRU)

PRU is the second largest life insurer in the U.S. with more than \$1 trillion of assets under management. The company also has operations in 42 countries and territories located throughout Asia, Europe and Latin America. PRU provides insurance, investment management, brokerage services and other financial products, ranking in the top three in terms of variable life assets, individual life in-force premiums and group life sales, earning top returns among traditional franchise life insurers. Although there have been recent currency challenges, the firm has consistently turned in attractive results from its international operations, and we continue to like the prospects of this segment. PRU's exit from its long-term

care business has aided the firm in reducing exposure to interest-rate-sensitive products. With favorable long-term potential within numerous business lines, a strong capital base and a history of returning cash to shareholders, we see Prudential as a core financial holding. The shares trade for less than 9 times estimated earnings and below book value, while offering a 3.2% dividend yield.

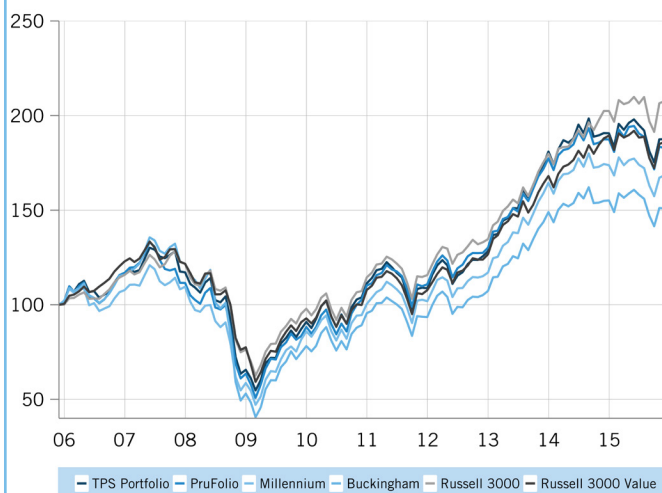
Ship Finance Int'l Ltd (SFL)

Ship Finance primarily engages in the transportation of crude oil and oil products, dry bulk and containerized cargos, and in offshore drilling. The company maintains a fleet of more than 70 vessels, including 19 crude oil tankers (VLCC and Suezmax), 22 drybulk carriers, 22 container vessels, six offshore supply vessels and four drilling rigs. Despite difficulties in the energy markets, tanker rates have held up very well, so much so that SFL delivered better-than-expected Q3 EPS of \$0.49 and again hiked its rich dividend payout. CEO Ole B. Hjertaker commented, "Our business model has been tested through all market cycles, and we have been profitable every quarter. With our track record and industry relationships we have access to a consistent stream of growth opportunities, and we have significant capital available for new accretive investments." We are encouraged by SFL's more than \$4 billion of contracted fixed-rate revenue backlog and are pleased that a large percentage of the fleet is under long-term charter. SFL currently offers a terrific 10+% yield.

Sanofi (SNY)

Sanofi is a global integrated health care company focused on: Diabetes Solutions, Vaccines, Genzyme, Emerging Markets, Consumer Health Care, Animal Health and Other Innovative Products. We like that SNY has a robust and promising pipeline of new pharmaceuticals, including several that address diseases that have no current treatments. We are optimistic about Praluent, which could potentially revolutionize the bad-cholesterol-lowering statin market. Sanofi also has a leading diabetes line of medicines, including blockbuster Lantus. While competition is tough, we like the opportunity in the diabetes space because the worldwide population of diagnosed diabetics is likely to show growth as global obesity rates continue to climb. We also like the firm's footprint within emerging economies. Sanofi is said to be considering a divestiture of its animal health business, which could provide capital for further pipeline investments as well as share buybacks and dividends. SNY yields 3.0% today. ■

NEWSLETTER PORTFOLIO PERFORMANCE



	Nov	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	-0.16	-2.74	-2.60	12.81	11.08	4.20
Millennium	0.78	-3.09	-3.40	13.54	12.25	5.35
PruFolio	-0.41	-2.45	-2.47	12.78	12.24	6.22
TPS	0.04	-1.64	-1.69	14.28	12.53	6.49
Major Indexes						
Russell 3000	0.55	2.58	2.58	16.01	14.13	7.58
Russell 3000 Value	0.58	-1.77	-1.01	14.52	13.24	6.40
S&P 500	0.30	3.01	2.74	16.08	14.39	7.48
Dow Jones Industrial Avg	0.71	1.76	1.87	13.53	12.81	7.84

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.59	9.46	Russell 3000
Millennium	12.31.99	9.03	4.71	Russell 3000
PruFolio	12.29.00	13.05	5.56	Russell 3000
TPS	03.10.77	17.96	10.89	S&P 500 ¹

Since *The Prudent Speculator's* launch in March 1977, its 1,846 stock recommendations have returned, on average, an annualized 17.17%, not including dividends.

As of 11.30.15. 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. ¹The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. SOURCE: Al Frank using data from Bloomberg

TPS Portfolio is Al Frank's actual investment portfolio. Though not presently leveraged, it has been so in the past. Buckingham Portfolio is John Buckingham's actual investment portfolio. Though not presently leveraged, it has been so in the past. Millennium Portfolio is unleveraged and hypothetical. PruFolio is unleveraged and hypothetical.

All portfolio returns are calculated on a total return basis and reflect the reinvestment of dividends, if any, margin leverage and margin interest charges, trading costs and subscription costs. There are inherent limitations with in hypothetical or model portfolio results as the securities are not actually purchased or sold. They may not reflect the impact, if any, of material market conditions which could have an impact on AFAM's decision making if the hypothetical portfolios were real. Hypothetical performance is shown for illustrative purposes only and should not be interpreted as an indication of performance of any AFAM portfolio. The use of leverage magnifies gains and losses and increases risk to a portfolio.

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